Reducing Purchase Card Fraud Risk in the Public Sector

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Introduction

Purchase cards, or P-cards, are an efficient and cost-effective way for public sector organizations to manage small-dollar and high-volume purchases. Since the start of the program in the late 1980s, P-cards have reduced the number of purchase orders, invoices, and checks processed, and have made it easier for government employees to buy supplies, register for conferences, and charge other expenditures that don't need to go through a lengthy procurement process.

P-cards (as well as T-cards used for business travel) also carry a high risk of fraud, waste, and abuse. Reports of unauthorized purchases have been found throughout government, often accomplished through split transactions to circumvent the micro-purchase spending threshold (recently increased from $3,000 to $10,000) or, more obviously, charged to closed accounts.

Other losses come from errors and abuses including improper and erroneous purchases, and blatant fraud, such as one agency that spent over $799,000 on gift cards—and failed to produce any card statements when requested by the auditor.

Breakdowns and gaps in internal controls

A 2008 General Accountability Office audit of the purchase card program found breakdowns in internal controls. It estimated that 35 percent of purchases exceeding the micro-purchase limit did not have proper authorization. GAO issued a follow-up report in 2017 noting that the General Service Administration, which administers the program, and the Office of Management and Budget, took a number of corrective actions since then, such as developing more training, monitoring tools, and guidance.

Still, GAO found weaknesses in agencies' approval processes for micro-purchases due to inadequate documentation. In response, GSA reemphasized record-keeping requirements to obtain, maintain, and retain complete documentation of all purchases. More recent reporting shows that is still a challenge.

In July 2018, the Council of the Inspectors General on Integrity and Efficiency issued a report in which 20 federal inspector generals (IGs) analyzed P-card transactions covering the first half of FY 2017. From Oct. 1, 2016 through March 31, 2017, cardholders governmentwide made more than 9.4 million transactions totaling more than $8.3 billion. The IGs found the potential for fraud in areas such as policy, monitoring, and training. Of 1,255 transactions analyzed, 501 (or 40 percent) did not comply with policies in the top five categories for fraud risk:

- Split transactions
- Sales tax transactions
- Transactions from unauthorized third-party merchants
- Transactions from prohibited merchant category codes
- Transactions from questionable merchant category codes

Of the 1,255 transactions reviewed, 279 were potential split transactions. Of those, 83 (6.6 percent) did not follow policies prohibiting split purchases, which is sometimes done to avoid the micro-purchase limit, set by the Federal Acquisition Regulation (FAR). That limit in fiscal 2017 was $3,500.

The IGs determined that the split transactions went unnoticed because:

- Agencies lacked policies to identify them
- Account officials did not properly review transactions to consistently identify splits
- Cardholders needed to be trained on regulations against split purchases

To reduce the risk of fraud in the P-card program overall, the IGs found agencies need to improve in three areas:

- More training for cardholders
- More policies and procedures for cards
- Better oversight of transactions by approving officials

Federal agencies' responsibilities in safeguarding P-card transactions

The Government Charge Card Abuse Prevention Act of 2012 requires agencies to "establish and maintain safeguards and internal controls" over purchase card usage. It further requires agencies' inspectors general to:

- **Conduct periodic assessments to identify and analyze risks**
- **Perform analysis or audits**
- **Report the results of such analysis**
- **Report to OMB on the agency's implementation of recommendations that address the audit. These progress reports are due by January 31 each year for the previous fiscal year. Also, when P-card expenditures total more than $10 million annually, the head of the agency and OIG must jointly report semi-annually to OMB any violations and disciplinary actions.**

Each agency is responsible for establishing its own policies and procedures for P-card management and oversight. Individual cardholders have primary responsibility for proper use of the card. The individual's approving official (AO) ensures that statutes, regulations, and policies are followed, and they give final approval. AOs are responsible for ensuring cards are used for authorized purchases by reviewing statements and reports to identify questionable or suspicious transactions and verifying reconciled transaction records.

The Payment Integrity and Information Act of 2018, which has passed the Senate and is now in the House, would increase federal agencies' accountability to reign in fraud, partly with greater requirements for data analytics.

The power of data analytics

Demands for better oversight of the P-card program can raise anxiety among public sector financial leaders. A top concern is how to provide the staffing necessary for improved oversight.

But identifying and mitigating P-card misuse is where government's industry partners can make a big difference. Using a modern data analytics platform to identify anomalous transactions that violate known rules or violation triggers, agencies can dramatically reduce misuse. Instead of relying on the "pay and chase" model, a modern analytics platform can help accelerate the recovery of funds, and other corrective actions.

On this platform, agencies have the ability to create contextual, rules-focused dashboards that can help them quickly see and understand P-card transactions, and incorporate the proper diagnostic as they are identified into their daily workflow.

Tableau automates the acquisition and first-level (i.e. known rule violation) analysis of transactional data to identify vulnerabilities and anomolies, and deliver results in near real-time in the appropriate context to both analysts, managers, and leadership alike. "By utilizing data visualization and analytics, auditors can quickly determine the most anomalous transactions that they need to examine further, stratifying them by known risk factors," according to Tableau Senior Manager, David Sears. "Our government customers have been amazed by what data visualization software can do to vastly reduce the identification of potential fraud risks in a fraction of the time it takes to do manually," he observed.
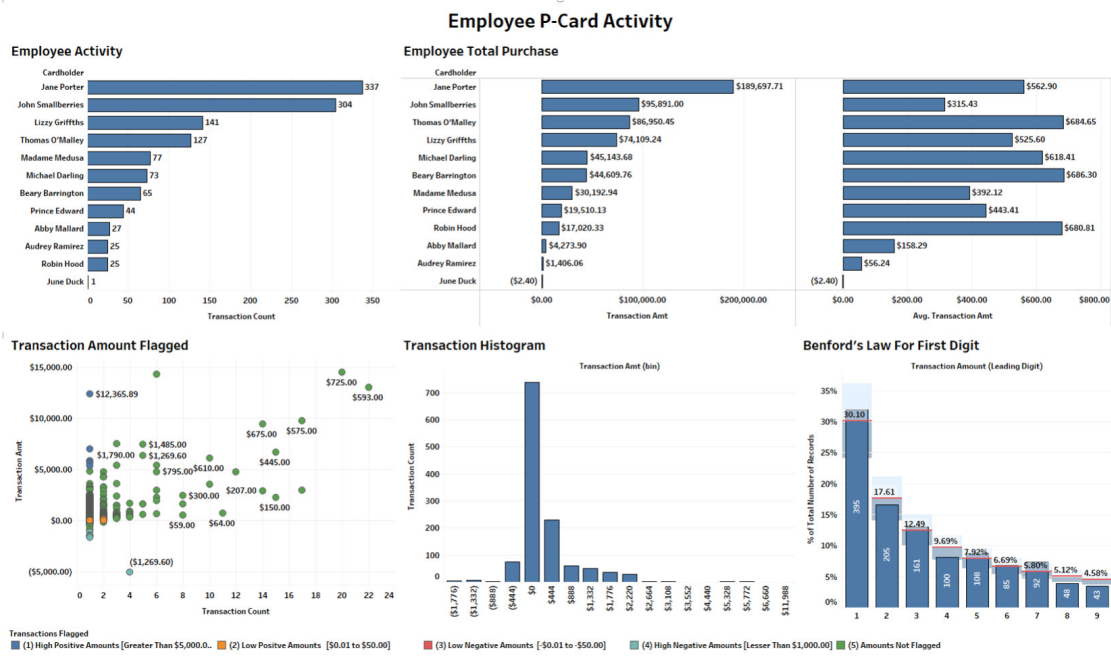

Figure 1 Example of Tableau dashboard depicting employee P-card activity

Asking the right questions

"What auditors really are looking for is to ask questions and tell a story with the data," Sears said. Some questions agencies may want to ask include:

- When was the transaction and who was the AO?
- Who do we do business with in a given category?
- Who are our Top 10 merchants overall, or in a given category?
- Which transactions exceed individual spending limits?
- When spending limits were exceeded, how did the transaction get through? Who was the AO?
- Are there transactions happening on federal holidays, weekends, or during card holder vacations?
- Have there been transactions on closed accounts?

Sears also notes that auditors typically look at a very small sample of available transactional data, mostly due to time available. "With a leading data and analytics platform, it's possible to rapidly analyze large data sets against known rules in their entirety—and gain valuable, actionable insights. Additionally, as nefarious behaviors evolve, the ad hoc nature of analytics enables the oversight to stay one step ahead of those who misuse appropriated funds."

Granular detail means quicker time to insights

Approving officials often miss issues such as split purchases because of their low purchase amounts and/or non-obvious relationships. By using the combination of rules and visualization in Tableau, transactions that could be problematic (such as split purchases, purchases during non-duty hours, or those done in restricted categories) can be identified, allowing those that are relatively low risk to be passed over. Key words can be used to see if purchases were made with suspect vendors, such as casinos or liquor stores, or totals can be gathered comparing internal offices or cardholder positions.

Preventing fraud before it happens

Linda Miller, a principal at Grant Thornton and former GAO assistant director of forensic audits and investigative service, finds that agencies need an easier path to lowering fraud risk in federal financial programs. To do that requires identifying at-risk transactions and stopping fraud before it happens.

"Most federal agencies, if you talk to them about what they are doing to address fraud, they will say 'You need to talk to the inspector general (IG); they do fraud,'" Miller said. "In reality, the IG comes in after the fact to investigate and prosecute fraud but it's the program managers who are really responsible for preventing fraud. They know how a fraudster might circumvent or override a given control to commit fraud."

It's important that agencies take responsibility for preventing fraud, rather than wait for an IG or GAO investigation, Miller said. Agencies have the information to know common fraud attempts against their programs, and can procure technical solutions to reduce those risks before fraud occurs, and in ways that do not add demands to the workforce.

The Tableau platform enables rapid analytics and data visualization of fraud risk, which may be sorted many ways, including by round-number transactions, duplicate transactions, and multiple transactions on the same day for similar items. With its solution, Grant Thornton further customized key analytics in Tableau to flag suspicious transactions. Using this modeling, Grant Thornton developed a library of analytic tests and rule-based procedures to identify fraud risk, based on common tactics. Using the Tableau software platform, Grant Thornton has helped federal agencies by:

- **Accelerating** detection and investigations of possible fraud with defined profiles based on known perpetrators. GT developed automated, analytic models focused on profiling high-risk providers across 500,000 claims at Veterans Health Affairs. Using Tableau software, GT analyzed each of the claims and ranked their risk for fraud.

- **Lowering** fraud risk by leveraging a proactive assessment process and mitigation strategies at the National Institutes of Health.

- **Enhancing** enterprise-wide, anti-fraud strategy by identifying at-risk components in the National Science Foundation's P-card and travel card programs. Data related to cardholders and financial records was blended to evaluate questionable transactions.

Conclusion

Using Tableau, it's easier to proactively combat P-card and T-card abuses. Auditors can ask questions, connect to data from more than 75 sources, and get answers back in the form of interactive visualizations that make it easier to spot potential fraud, and take the steps necessary to reach a resolution."

"It is these types of partnerships that will help federal agencies to create long-lasting solutions to reduce the potential for fraud in government purchase and travel cards," Sears said. "Using proactive data analytics, such as Tableau, agencies can make more informed, and targeted decisions," he continued. "Auditors should be able to ask any question of their data and identify a narrowed set of transactions on which to focus."

To learn more about how Tableau can help your organization mitigate fraud risk with data analytics, we invite you to explore the Additional Resouces, below.

Relevant Resources

To learn more about Tableau's solutions to prevent fraud, waste, and abuse in government, read Finance Analytics for Public Sector.

Other resources include:

Tableau Government Solutions

Tableau Online Scalability

7 Ways Finance Teams are Driving ROI with Tableau

Deploying Tableau in the US Federal Government

Sign up for Tableau's free, two-week free trial here.

About Tableau

Tableau helps people transform data into actionable insights. Explore with limitless visual analytics. Build dashboards and perform ad hoc analyses in just a few clicks. Share your work with anyone and make an impact on our business. From the individual analyst looking at a specific government program, to the head of a government agency looking at overall performance against the mission goals, people everywhere use Tableau to see and understand their data.