

UNCLASSIFIED



Office of Inspector General
United States Department of State

AUD-CGI-19-15

Office of Audits

December 2018

Information Report: Department of State 2018 Charge Card Risk Assessment

INFORMATION REPORT

UNCLASSIFIED

Summary of Review

The Government Charge Card Abuse Prevention Act of 2012¹ requires the Office of Inspector General (OIG) to conduct periodic assessments of agency purchase and travel card programs that identify and analyze risks of illegal, improper, or erroneous purchases and payments for use in determining the scope, frequency, and number of periodic audits of these programs.

OIG is currently performing an audit of the Department of State (Department) purchase card program on the basis of OIG's risk assessment of the purchase card program in 2016. In that risk assessment, OIG concluded that the risk of illegal, improper, or erroneous use in the Department's purchase card program was "high." As a result, OIG initiated an audit of the Department's purchase card program in September 2017. Because the audit is ongoing and is designed to identify illegal, improper, or erroneous purchases and payments, OIG did not conduct a risk assessment of the purchase card program in 2018.

OIG did, however, conduct a risk assessment of the Department's travel card program in 2018. Specifically, OIG reviewed the Department's FY 2017 travel card data and concluded that the risk of illegal, improper, or erroneous use in the Department's travel card program is "medium." OIG based its conclusion on the travel card program's size, internal controls, training, previous audits, and OIG Office of Investigations (INV) observations.

On the basis of the results of this assessment, OIG is not recommending an audit of the Department's travel card program be included in OIG's FY 2020 work plan. However, OIG encourages Department officials to conduct prudent oversight of the travel card program and ensure that internal controls intended to safeguard taxpayer funds are fully implemented and followed by Department travel cardholders.

OBJECTIVE

OIG conducted this risk assessment to establish the risk of illegal, improper, and erroneous use of the Department's travel card program and recommend the scope, frequency, and number of audits that should be conducted on the basis of the aforementioned risk assessment.

BACKGROUND

The Government Charge Card Abuse Prevention Act of 2012 requires OIG to conduct periodic assessments of agency purchase and travel card programs that identify and analyze risks of illegal, improper, or erroneous purchases and payments for use in determining the scope, frequency, and number of periodic audits of these programs.² The Office of Management and Budget (OMB) issued implementing guidance³ that outlines OIG risk assessment requirements as well as additional required internal controls for agency charge card programs. In addition, OMB previously issued guidance that

¹ Pub. L. No. 112-194 (October 5, 2012).

² Pub. L. No. 112-194, Sec. 2 § 1909(d)(1) and Sec. 3 (h)(3).

³ OMB Memorandum M-13-21, "Implementation of the Government Charge Card Abuse Prevention Act of 2012" (September 6, 2013).

prescribes the policies and procedures regarding how agencies maintain internal controls to reduce the risk of fraud, waste, and error in Government charge card programs.⁴

OIG concluded in its 2016 purchase card risk assessment⁵ that the risk of illegal, improper, or erroneous use in the Department's purchase card program was "high." As a result of the 2016 risk assessment, an audit of the Department's purchase card program was initiated in September 2017. Because OIG is currently conducting an audit of the purchase card program, the risk assessment in this report only evaluates the Department's travel card program.

The 2018 risk assessment of the Department's travel card program, which covers FY 2017 spending data, is the fourth risk assessment on the Department's travel card program conducted by OIG. Department officials reported that in FY 2017 11,214 travel cardholders (10,084 individually billed accounts and 1,130 centrally billed accounts) made purchases totaling approximately \$248.2 million (\$24.4 million for individually billed accounts and \$223.8 million for centrally billed accounts).

The purpose of this information report is to promptly report the results of the risk assessment and prompt timely implementation of management practices that will result in the sound stewardship of U.S. taxpayer dollars. See Appendix A for additional details of the purpose, scope, and methodology of the risk assessment.

RESULTS

Department Travel Card Program Risk Assessment Results

OIG determined that the risk of illegal, improper, or erroneous use in the Department's travel card program is "medium." On the basis of the results of this assessment, OIG is not recommending that an audit of the Department's travel card program be included in OIG's FY 2020 work plan. However, OIG encourages Department officials to conduct prudent oversight of the travel card program and ensure that internal controls intended to safeguard taxpayer funds are fully implemented and followed by Department travel cardholders.

Criteria Ratings

According to documentation and information provided by Department officials, OIG determined that the Department's compliance with required internal controls for the travel card program was generally good. Overall, 94 percent (44 of 47) of the internal controls assessed were in compliance with criteria,⁶ including 84 percent (16 of 19) compliance with internal controls specific to travel cards. Because the majority of internal controls assessed (94 percent) were in compliance with criteria, OIG assigned the Department a rating of "low" for the internal control criterion.

The availability of training and the incorporation of training in Department policy were rated as "low" risk because Department officials provided detailed documentation and policies requiring travel cardholders and approving officials to complete appropriate training related to travel charge cards.

⁴ OMB Circular A-123, "Management's Responsibility for Internal Control," Appendix B, "Improving the Management of Government Charge Card Programs" (July 15, 2016).

⁵ OIG, *Information Report: Department of State 2016 Purchase Card Risk Assessment* (AUD-CGI-17-25, December 2016).

⁶ See Appendix A: Purpose, Scope, and Methodology of this report for details on the criteria used.

OIG issued a report on its audit of the Department’s travel card program in September 2016.⁷ That report included seven recommendations. As of October 16, 2018, three recommendations had been closed and four recommendations were resolved pending completion. Although four recommendations from OIG’s report remain open, the Department conducted internal reviews of its domestic bureau Agency/Organization Program Coordinators and OIG, therefore, determined that the risk associated with the prior audit work criterion was “low.”

INV forensic auditors stated that the Department has implemented a number of positive changes in its travel card program and is conducting regular internal reviews of cardholder transactions. The information provided by INV resulted in a “low” rating for this criterion. The individual criterion ratings and overall combined rating are shown in Table 1.

Table 1: 2018 Risk Rating by Criterion

Criterion	2018 Rating
Internal Controls	Low
Training	Low
Previous Audits	Low
INV Observation	Low
Combined	Low*

* Individual criterion ratings were assigned numeric values and the total was averaged to identify an overall rating. Criteria rated as “low” risk were assigned a numeric value of 1; criteria rated as “medium” risk were assigned a numeric value of 2; and criteria rated as “high” risk were assigned a numeric value of 3.

Source: Generated by OIG from its analysis of travel card program information and documentation.

Impact and Likelihood Factor

Department officials reported that 11,214 Department travel cardholders made purchases totaling \$248.2 million in FY 2017. Because the dollar amount of the total purchases made was more than \$10 million and the number of Department travel cardholders was more than 500, the overall impact and likelihood factor resulted in a “very high” rating, as shown in Table 2.⁸

Table 2: 2018 Impact and Likelihood Factor

		2018 Rating
Impact	\$248.2 million	High
Likelihood	11,214 cardholders	High
Impact and Likelihood Factor		Very High

Source: Generated by OIG from its analysis of travel card program information and documentation.

⁷ OIG, *Audit of the Department of State Travel Card Program* (AUD-CGI-16-48, September 2016).

⁸ Refer to Appendix A: Purpose, Scope, and Methodology, Tables A.1 and A.2, for OIG’s methodology in determining the Impact and Likelihood Factor.

Risk Assessment

OIG determined that the risk of illegal, improper, or erroneous use in the Department travel card program is “medium.” On the basis of this assessment, OIG is not recommending that an audit of the Department’s travel card program be included in OIG’s FYs 2020 work plan. However, OIG encourages the Department’s travel card program manager to fully implement the recommendations made in OIG’s previous travel card audit report,⁹ conduct prudent oversight of the travel card program, and ensure that internal controls intended to safeguard taxpayer funds are fully implemented and followed by Department travel cardholders.

⁹ AUD-CGI-16-48, at 7.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Office of Inspector General (OIG) performed this risk assessment in October and November 2018. The objective of this assessment was to establish the risk of illegal, improper, and erroneous use of the Department of State's (Department) travel card program and recommend the scope, frequency, and number of audits that should be conducted on the basis of the aforementioned risk assessment. To perform the risk assessment, OIG considered the Department's travel card program size, internal controls, training, previous audits, and OIG Office of Investigations (INV) observations. OIG conducted the risk assessment using industry standard principles for risk management.¹

This risk assessment was not an audit and, therefore, was not conducted in accordance with generally accepted government auditing standards. The results of the risk assessment should not be interpreted to conclude that travel card programs with lower risk are free of illegal, improper, or erroneous use or internal control deficiencies. Conversely, a higher risk program may not necessarily signify illegal, improper, or erroneous use, only that conditions are conducive to those activities. Regardless of the risk assessment results, if the travel card program were to be audited, an audit team might identify such issues through independent testing of travel card data. For example, a travel card program may be found to be "very low risk" on the basis of documentation and other information provided by agency officials, the number of cardholders, and the total amount of travel card expenditures. However, an audit of that travel card program may determine that the controls outlined in an agency's policy are not being implemented appropriately and that illegal, improper, or erroneous activity is occurring. The risk assessment was designed to identify the programs in which the OIG Office of Audits should focus its limited resources.

Assessment Criteria

To conduct the risk assessment, OIG reviewed FY 2017 travel card data, documentation, and information provided by Department officials.² OIG assessed the travel card program using four criteria: internal controls, training, previous audits, and INV observations. OIG assigned a rating of "low," "medium," or "high" to identify the risk associated with each factor.³

Internal Controls

OIG used criteria identified in Public Law 112-194⁴ and Office of Management and Budget (OMB) Circular A-123⁵ to assess internal controls associated with the Department's travel card program. OIG assessed the travel card program for 28 general internal controls and 19 internal controls specific to travel card programs (a total of 47 internal controls assessed). For example, a general control would apply to both purchase card and travel card programs, such as the OMB Circular A-123 requirement that

¹ Committee of Sponsoring Organizations of the Treadway Commission, "Enterprise Risk Management – Integrated Framework Executive Summary" (September 2004), and Deloitte & Touche, LLP, "Risk Assessment in Practice" (October 2012).

² In performing this risk assessment, OIG used travel card data reported by the Department without independently verifying the data for accuracy and completeness. The Department travel card program manager reported that travel cardholders made purchases totaling approximately \$248.2 million in FY 2017.

³ OIG team members used professional judgment to determine compliance with requirements in assessing risk ratings for each factor.

⁴ Pub. L. No. 112-194, Sec. 3(h)(1)(A)-(I).

⁵ OMB Circular A-123, Appendix B §§ 2.3, 3.1, 3.4, 4.1, 4.2, 4.3, 4.4, 4.8, and Attachment 5, "Best Practices in Managing Government Charge Card Programs."

agencies perform periodic reviews of spending and transaction limits to ensure appropriateness.⁶ Travel card-specific controls apply only to travel card programs, such as the requirement that agencies monitor the accuracy of rebates and refunds that are based on prompt payment, sales volume, or other agency actions on travel charge card accounts.⁷ OIG assigned a rating of “low,” “medium,” or “high” on the basis of documented compliance with required internal controls. OIG assigned a “high” rating to programs with a high percentage of non-compliant internal controls. OIG assigned a “low” rating to programs with a high percentage of compliant internal controls. OIG assigned a “medium” rating to programs with neither a high percentage of compliant internal controls nor a high percentage of non-compliant internal controls.

Training

OIG assigned the Department’s travel card program a rating of “low,” “medium,” or “high” on the basis of the availability of training and incorporation of training in its policy for the program. OIG assigned a “high” rating if training was not available and was not incorporated into the organization’s policies. OIG assigned a “low” rating if training was available and incorporated into policies. OIG assigned a “medium” rating if training was available but not incorporated into policies or if training was not available but was incorporated into policies.

Previous Audits

To assess the Department’s travel card program, OIG reviewed the results of previous audits as well as the implementation status of associated recommendations. OIG assigned a “high” rating for a program that had not been audited within 10 years. OIG assigned a “low” rating if a program had been audited recently and recommendations had been implemented. OIG assigned a “medium” rating for programs that had been audited recently but had not fully implemented recommendations. The ratings were mitigated if the program provided documentation of meaningful internal reviews (conducted by the agency).

INV Observations

OIG assigned ratings of “low,” “medium,” or “high” for the Department’s travel card program on the basis of guidance from INV forensic auditors. The Office of Audits met with INV to gain an understanding of the data mining⁸ efforts being used to review Department travel card transactions. INV provided information on the results of its data mining analyses and interviews with Department officials responsible for the travel card program.

Impact and Likelihood

Impact refers to the extent to which a risk event might affect the Department, and likelihood represents the possibility that a given event might occur. OIG assigned an impact rating of “low,” “medium,” or “high” on the basis of the dollars spent in the Department’s travel card program and assigned a likelihood rating of “low,” “medium,” or “high” on the basis of the number of cardholders in the Department’s travel card program. The rating criteria are shown in Table A.1.

⁶ Ibid, Attachment 5, “Best Practices in Managing Government Charge Card Programs.”

⁷ Pub. L. No. 112-194, Sec. 3(h)(1)(B).

⁸ Data mining is the practice of searching through large amounts of computerized data to find useful patterns or trends.

Table A.2: Impact and Likelihood Ratings

Rating	Impact	Likelihood
Low	Less than \$1 million	Fewer than 250 cardholders
Medium	\$1 million to \$10 million	250 to 500 cardholders
High	More than \$10 million	More than 500 cardholders

Source: Generated by OIG from the review of multiple sources, including industry standard principles for risk management.

Using the information obtained in Table A.1, OIG plotted the impact and likelihood ratings on a chart known as a “heat map,” which depicts the intersections of the ratings, to determine a rating for the impact and likelihood factor. The heat map is shown in Table A.2. OIG used this single impact and likelihood combined “factor” in the final overall risk assessment (Table A.3) for the Department’s travel card program.

Table A.2. Impact and Likelihood Factor Heat Map

		Factor		
		Higher	Medium	High
Impact Rating	Medium	Low	Medium	High
	Lower	Very Low	Low	Medium
			Lower	Medium
		Likelihood Rating		

Source: Generated by OIG from a review of industry standard principles for risk management.

Final Risk Assessment

OIG plotted the combined individual criteria rating found in Table A.1 along with the combined impact and likelihood factor found in Table A.2, to determine the final risk assessment rating for the Department’s travel card program. Specifically, OIG used the final risk assessment heat map shown in Table A.3 to arrive at the overall risk assessment rating.

Table A.3. Final Risk Assessment Heat Map

		Final Rating		
		Very High	High	Very High
Impact and Likelihood Factor	High	Medium	High	Very High
	Medium	Low	Medium	High
	Low	Very Low	Low	Medium
	Very Low	Very Low	Low	Medium
			Low	Medium
		Combined Criteria Rating		

Source: Generated by OIG from a review of industry standard principles for risk management.

OIG AUDIT TEAM MEMBERS

Denise Colchin, Director
Contracts, Grants, and Infrastructure Division
Office of Audits

Rachel Kell, Senior Auditor
Contracts, Grants, and Infrastructure Division
Office of Audits

Marcus Jaramillo, Senior Auditor
Contracts, Grants, and Infrastructure Division
Office of Audits

UNCLASSIFIED



HELP FIGHT FRAUD, WASTE, AND ABUSE

1-800-409-9926

[Stateoig.gov/HOTLINE](https://stateoig.gov/HOTLINE)

If you fear reprisal, contact the
OIG Whistleblower Coordinator to learn more about your rights.

WPEAOmbuds@stateoig.gov

UNCLASSIFIED