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Information Report: International Boundary and Water Commission, United States and Mexico, U.S. Section, 2016 Purchase Card Risk Assessment

INFORMATION REPORT

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Summary of Review

To assess risk associated with the purchase card program at the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), OIG reviewed USIBWC's FY 2015 purchase card data and concluded that the risk of illegal, improper, or erroneous use in the USIBWC purchase card program is "low." This conclusion is based on USIBWC's purchase card program size, internal controls, training, previous audits, and OIG Office of Investigations (OIG/INV) observations.

On the basis of the results of this assessment, OIG is not recommending an audit of USIBWC's purchase card program be included in OIG's FY 2018–FY 2019 work plan. However, OIG encourages USIBWC officials to continue prudent oversight of the purchase card program and ensure that internal controls intended to safeguard taxpayer funds are fully implemented and followed among USIBWC purchase cardholders.

BACKGROUND

The Government Charge Card Abuse Prevention Act of 2012¹ 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. The Office of Management and Budget (OMB) issued implementing guidance,² which outlined OIG risk assessment requirements,³ as well as additional required internal controls for agency charge card programs. In addition, OMB previously issued guidance that 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

This 2016 risk assessment, which covers FY 2015 spending data, is the third such review conducted by OIG with regard to the USIBWC charge card programs.⁵ USIBWC officials reported that 22 purchase cardholders made purchases totaling approximately \$1.4 million in FY 2015.⁶

¹ Public Law Number 112-194, October 5, 2012.

² OMB Memorandum M-13-21, "Implementation of the Government Charge Card Abuse Prevention Act of 2012," September 6, 2013.

³ OMB M-13-21 states that only travel card programs with prior year spending of more than \$10 million are required to be reviewed annually.

⁴ OMB Circular A-123, "Management's Responsibility for Internal Control," Appendix B, "Improving the Management of Government Charge Card Programs," January 15, 2009.

⁵ For 2016, only USIBWC's purchase card program was evaluated because the travel card program had less than \$10 million in spending, which is below the threshold requiring an assessment.

⁶ OMB Memorandum M-13-21 states that at a minimum, risk assessments should be completed on an annual basis.

PURPOSE, SCOPE, AND METHODOLOGY

OIG's Office of Audits performed this risk assessment from November to December 2016. The objective of this assessment was to establish the risk of illegal, improper, and erroneous use of USIBWC's purchase 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 USIBWC's purchase card program size, internal controls, training, previous audits, and OIG/INV observations. OIG conducted the risk assessment using industry standard principles for risk management.⁷

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 purchase 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 purchase card program was audited, an audit team may identify such issues through independent testing of purchase card data. For example, a purchase 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 purchase card expenditures. However, an audit of that purchase 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. This risk assessment was designed to identify the programs in which the OIG Office of Audits should focus its limited resources.

Assessment Criteria

To conduct this risk assessment, OIG reviewed FY 2015 charge card data, documentation, and information provided by USIBWC officials.⁸ OIG then assessed USIBWC's purchase card program on four criteria:⁹ internal controls, training, previous audits, and OIG/INV observations. OIG assigned a rating of "low," "medium," and "high," to identify the risk associated with each factor.

⁷ 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.

⁸ In performing this risk assessment, OIG used charge card data reported by USIBWC without independently verifying the data for accuracy and completeness. USIBWC reported that purchase cardholders made purchases totaling approximately \$1.4 million in FY 2015.

⁹ Agencies that spend more than \$10 million annually using purchase cards are required to submit annual "violation reports." Because USIBWC did not have more than \$10 million in purchases, it did not prepare a violation report. Therefore, OIG did not consider this factor during the USIBWC purchase card program risk assessment.

Internal Controls

OIG used criteria identified in Public Law 112-194¹⁰ and OMB Circular A-123¹¹ to assess internal controls associated with USIBWC's purchase card program. OIG assessed the purchase card program for 28 general internal controls and 29 internal controls specific to purchase card programs (a total of 57 internal controls assessed). For example, a general control would apply to both purchase and travel card programs, such as the OMB Circular A-123 requirement that agencies perform periodic reviews of spending and transaction limits to ensure appropriateness. Purchase card specific controls apply only to purchase card programs, such as the Public Law 112-194 requirement that agencies have policies in place to ensure that each cardholder is assigned an approving official with authority to approve or disapprove transactions. OIG assigned a rating of "low," "medium," or "high," on the basis of documented compliance with required internal controls.

Training

OIG assigned USIBWC's purchase card program a rating of "low," "medium," or "high," on the basis of the availability of training and USIBWC's incorporation of training in its program policy.

Previous Audits

OIG reviewed the results of previous audits, as well as the implementation status of associated recommendations, for USIBWC's purchase card program. OIG assigned a "high" rating for a program that had not been audited within 10 years. OIG assigned a "low" rating when a program had been recently audited and recommendations had been implemented. OIG assigned a "medium" rating for programs that had been audited recently but for which recommendations had not been fully implemented. The ratings were mitigated if documentation of meaningful internal reviews (conducted by the agency) was provided.

OIG/INV Observation

OIG assigned ratings of "low," "medium," or "high" for USIBWC's purchase card program on the basis of input from OIG/INV forensic auditors. The Office of Audits met with OIG/INV to gain an understanding of the data mining¹² efforts being used to review USIBWC purchase card transactions. OIG/INV provided information related to the results of its analyses and interviews with USIBWC officials responsible for the purchase card program.

Impact and Likelihood

Impact refers to the extent to which a risk event might affect USIBWC 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 USIBWC purchase card program and assigned

¹⁰ Public Law 112-194, "Government Charge Card Abuse Prevention Act of 2012," October 5, 2012.

¹¹ OMB Circular A-123, "Management's Responsibility for Internal Control," Appendix B, "Improving the Management of Government Charge Card Programs," January 15, 2009.

¹² Data mining is the practice of searching through large amounts of computerized data to find useful patterns or trends.

a likelihood rating of “low,” “medium,” or “high,” on the basis of the number of cardholders in the USIBWC purchase card program. The rating criteria are shown in Table 1.

Table 1. 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: OIG-generated on the basis of review of multiple sources, including industry standard principles for risk management.

The impact and likelihood ratings were combined to determine a single “factor” that was used in the final overall risk assessment for the USIBWC purchase card program. 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 2.

Table 2. Impact and Likelihood Factor Heat Map

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

Source: OIG-generated on the basis of review of industry standard principles for risk management.

Final Risk Assessment

OIG combined the individual criteria ratings to form an overall combined rating and used this rating, combined with the impact and likelihood factor, to determine the final risk assessment rating for USIBWC’s purchase card program. Specifically, OIG used the final risk assessment heat map shown in Table 3 to arrive at the overall risk assessment rating.

Table 3. Final Risk Assessment Heat Map

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

Source: OIG-generated on the basis of review of industry standard principles for risk management.

RESULTS

USIBWC Purchase Card Program Risk Assessment Results

On the basis of the results of this assessment, OIG concludes that the risk of illegal, improper, or erroneous use in USIBWC's purchase card program is "low." Therefore, OIG is not recommending that an audit of USIBWC's purchase card program be included in OIG's FY 2018–FY 2019 work plan.¹³ Although an audit of the program is not planned, OIG encourages USIBWC officials to continue prudent oversight of the purchase card program and ensure that internal controls intended to safeguard taxpayer funds are fully implemented and followed among USIBWC purchase cardholders.

Criteria Ratings

According to documentation and information provided by USIBWC officials, OIG determined that the purchase card program compliance with required internal controls was generally moderate—overall, 54 percent (31 of 57) of internal controls assessed were in compliance with criteria,¹⁴ including 66 percent (19 of 29) compliance with purchase card-specific internal controls. Due to the language used in the internal control criteria, OIG found that 42 percent (24 of 57) of internal controls tested were neither compliant nor non-compliant. Overall, OIG determined that the combination of compliant internal controls—54 percent—and neither compliant nor non-compliant controls—42 percent—resulting in a "low" rating for the internal control criterion.

The availability of training and the incorporation of training in USIBWC policy were rated as "medium" risk. The USIBWC "Government-wide Commercial Credit Card Manual"¹⁵ was updated on September 15, 2015, and includes specific guidance related cardholder and approving official initial and refresher training, as well as record retention requirements and potential consequences for failure to meet established training requirements. However, OIG found that the requirement for USIBWC personnel to complete General Services Administration purchase card training has not been incorporated into USIBWC policies and procedures.

OIG has not audited the USIBWC purchase card program, and USIBWC has not completed any internal audit's of its purchase card program. Therefore, OIG assigned a "high" rating for the previous audit's criterion.

OIG/INV forensic auditors have not identified any significant systemic issues related to USIBWC purchase card data, which resulted in a "low" rating for the OIG/INV observation criterion. The individual criteria ratings and overall combined rating are shown in Table 4.

¹³ OIG issues a 2-year work plan. The "OIG FY 2017–FY 2018 Work Plan" was issued in September 2016.

¹⁴ See the Purpose, Scope, and Methodology section of this report for details of criteria used.

¹⁵ USIBWC SD.I.06057-M-1, "Government-wide Commercial Credit Card Manual," September 15, 2015

Table 4. 2016 Risk Rating by Criteria

Criteria	2016 Rating
Internal Controls	Low
Training	Medium
Previous Audits	High
OIG/INV Observation	Low
<i>Combined</i>	<i>Medium</i>

Source: OIG-generated on the basis of analysis of purchase card program information and documentation.

Impact and Likelihood Factor

USIBWC officials reported that 22 purchase cardholders made purchases totaling approximately \$1.4 million in FY 2015. On the basis of the dollar value of total purchases made and the number of USIBWC purchase cardholders, the overall impact and likelihood factor resulted in a “low” rating, as shown in Table 5.

Table 5. Impact and Likelihood Factor

		Rating
Impact	\$1.4 million	Medium
Likelihood	22 cardholders	Low
<i>Impact and Likelihood Factor</i>		<i>Low</i>

Source: OIG-generated on the basis of analysis of purchase card program information and documentation.

RISK ASSESSMENT

OIG’s final determination of the risk of illegal, improper, or erroneous use in the USIBWC purchase card program is “low.” On the basis of this risk assessment, OIG is not recommending that an audit of USIBWC’s purchase card program be included in OIG’s FY 2018–FY 2019 work plan. Although an audit of the program is not planned, OIG encourages USIBWC officials to continue prudent oversight of the purchase card program and ensure that internal controls intended to safeguard taxpayer funds are fully implemented and followed among USIBWC purchase cardholders.

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