



# OIG

## Office of Inspector General

U.S. Department of State • Broadcasting Board of Governors

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Office of Audits

December 2016

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# Information Report: Department of State 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 Department of State (Department), OIG reviewed the Department's FY 2015 purchase card data and concluded that the risk of illegal, improper, or erroneous use in the Department purchase card program is "high." This conclusion is based on Department purchase card program size, internal controls, training, previous audits, OIG Office of Investigations (OIG/INV) observations, and violations reports.

OIG included an audit of the Department's purchase card program in its FY 2017–FY 2018 work plan, with audit work scheduled to begin later in FY 2017. In addition to this planned audit, OIG encourages the Department purchase card manager to conduct prudent oversight of the purchase card program and ensure that internal controls intended to safeguard taxpayer funds are fully implemented and followed among Department purchase cardholders.

## BACKGROUND

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The Government Charge Card Abuse Prevention Act of 2012<sup>1</sup> 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,<sup>2</sup> which outlined OIG risk assessment requirements, 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.<sup>3</sup>

This 2016 risk assessment, which covers FY 2015 spending data, is the third such review conducted by OIG with regard to the Department's purchase card program. Department officials reported that 1,744 purchase cardholders made purchases totaling approximately \$113 million in FY 2015.

## PURPOSE, SCOPE, AND METHODOLOGY

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OIG's Office of Audits performed this risk assessment from November 2016 to December 2016. The objective of this assessment was to establish the risk of illegal, improper, and erroneous use of the Department's purchase card program and recommend the scope, frequency, and number

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<sup>1</sup> Public Law Number 112-194, October 5, 2012.

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

<sup>3</sup> OMB Circular A-123, "Management's Responsibility for Internal Control," App. B, "Improving the Management of Government Charge Card Programs," January 15, 2009.

of audits that should be conducted on the basis of the aforementioned risk assessment. To perform the risk assessment, OIG considered the Department's purchase card program size, internal controls, training, previous audits, OIG/INV observations, and violations reports. OIG conducted the risk assessment using industry standard principles for risk management.<sup>4</sup>

The 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 value 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. 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 2015 purchase card data, documentation, and information provided by Department officials.<sup>5</sup> OIG assessed the purchase card program on five criteria: internal controls, training, previous audits, OIG/INV observations, and violations reports. OIG assigned a rating of "low," "medium," or "high," to identify the risk associated with each factor.

### Internal Controls

OIG used criteria identified in Public Law 112-194<sup>6</sup> and OMB Circular A-123<sup>7</sup> to assess internal controls associated with the Department'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 card and travel card programs, such as the OMB 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

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<sup>4</sup> 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.

<sup>5</sup> In performing this risk assessment, OIG used purchase card data reported by the Department without independently verifying the data for accuracy and completeness. The Department purchase card program manager reported that purchase cardholders made purchases totaling approximately \$113 million in FY 2015.

<sup>6</sup> Public Law 112-194, "Government Charge Card Abuse Prevention Act of 2012," October 5, 2012.

<sup>7</sup> OMB Circular A-123, "Management's Responsibility for Internal Control," Appendix B, "Improving the Management of Government Charge Card Programs," January 15, 2009.

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 the Department's purchase 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.

### Previous Audits

OIG reviewed the results of previous audits, as well as the implementation status of associated recommendations, for the Department'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 the Department'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 mining<sup>8</sup> efforts being used to review Department purchase card transactions. OIG/INV provided information on the results of its analyses and interviews with Department officials responsible for the purchase card program.

### Violation Reports

Violation reports are required for purchase card programs that exceed \$10 million in spending annually.<sup>9</sup> OIG assigned a "low" rating if a report was provided and a low number of violations had been reported, respective of the total number of purchase cardholders. OIG assigned a "medium" rating if a report was provided and a medium number of violations was reported, respective of the total number of purchase cardholders. OIG assigned a "high" rating if a report was required but not provided or a large number of violations was reported, respective to the total number of purchase cardholders.

### 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 purchase card program

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

<sup>9</sup> OMB Memorandum M-13-21, "Implementation of the Government Charge Card Abuse Prevention Act of 2012," September 6, 2013.

and assigned a likelihood rating of “low,” “medium,” or “high,” on the basis of the number of cardholders in the Department’s 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 compared to determine a single “factor” that was used in the final overall risk assessment for the Department 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**

Impact Rating		Factor		
		Higher	Medium	High
Medium	Lower	Low	Medium	High
Lower	Very Low	Very Low	Low	Medium
		Lower	Medium	Higher
		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 the Department’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**

Impact and Likelihood Factor		Final Rating		
		Very High	Medium	High
High	Medium	Medium	High	Very High
Medium	Lower	Low	Medium	High
Low	Very Low	Very Low	Low	Medium
Very Low	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

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### Department 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 the Department's purchase card program is "high." OIG included an audit of the Department's purchase card program in its FY 2017–FY 2018 work plan,<sup>10</sup> with audit work scheduled to begin later in FY 2017. In addition to this planned audit, OIG encourages the Department purchase card manager to conduct prudent oversight of the purchase card program and ensure that internal controls intended to safeguard taxpayer funds are fully implemented and followed among Department purchase cardholders.

### Criteria Ratings

According to documentation and information provided by Department officials, OIG determined that the purchase card program compliance with required internal controls was very good—overall, 100 percent (57 of 57) of internal controls assessed were in compliance with criteria,<sup>11</sup> including 100-percent (29 of 29) compliance with purchase card-specific internal controls. 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 the Department's purchase card program manager provided detailed documentation and policies requiring cardholders and approving officials to complete appropriate training related to purchase charge cards.

OIG performed an audit of the Department purchase card program from 2009 to 2010 (report issued in September 2010).<sup>12</sup> The report included two recommendations, one of which has remained in "resolved" status since January 2011. OIG recommended that the Department develop and implement a plan to ensure continuous monitoring of purchase card program participant compliance with internal controls, which was found to be deficient during the audit. The remaining recommendation was closed.

In addition, the OIG Office of Inspections (OIG/ISP) issued a Management Assistance Report related to the Department's annual purchase card program review.<sup>13</sup> OIG/ISP found that in FY 2014, 53 percent of overseas purchase card coordinators either failed to perform mandatory annual reviews of their purchase card programs or did not respond to a request for that information. The report included two recommendations, one of which was closed. The remaining recommendation was resolved, pending further action.

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<sup>10</sup> OIG issues a 2-year work plan. The *OIG FY 2017 – FY 2018 Work Plan* was issued in September 2016.

<sup>11</sup> See the Purpose, Scope, and Methodology section of this report for details of criteria used.

<sup>12</sup> OIG, *Audit of Department of State Purchase Card Domestic Use* (AUD/SI-10-31, September 2010).

<sup>13</sup> OIG, *Management Assistance Report: Annual Purchase Card Program Reviews* (ISP-I-16-04, January 2016).

Because one OIG Office of Audits recommendation has remained in resolved but open status for more than 5 years, as well as the fact that one OIG/ISP recommendation has been resolved but open for almost 12 months, OIG assigned a rating of “medium” for the prior audits criterion.

OIG/INV forensic auditors stated that the office is involved in several projects related to the Department’s purchase card program. The focus of these projects is on split purchases and risky transactions, which are possible indicators of abuse within the program. In addition, OIG/INV has one active purchase card case related to split purchases. The input received from OIG/INV resulted in a “high” rating for this criterion. The individual criteria ratings and overall combined rating are shown in Table 4.

**Table 4. 2016 Risk Rating by Criteria**

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

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

### Impact and Likelihood Factor

Department officials reported that 1,744 Department purchase cardholders made purchases totaling \$113 million in FY 2015. The impact and likelihood factor, shown in Table 5, raised the significance of the risk associated with the Department purchase card program.

**Table 5. Impact and Likelihood Factor**

		Rating
Impact	\$113 million	High
Likelihood	1,744 cardholders	High
<b><i>Impact and Likelihood Factor</i></b>		<b><i>Very High</i></b>

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

## RISK ASSESSMENT

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OIG’s final determination of the risk of illegal, improper, or erroneous use in the Department purchase card program is “high.” OIG included an audit of the Department’s purchase card program in its FY 2017–FY 2018 work plan, with audit work scheduled to begin later in FY 2017. In addition to this planned audit, OIG encourages the Department purchase card manager to conduct prudent oversight of the purchase card program and ensure that internal controls intended to safeguard taxpayer funds are fully implemented and followed among Department purchase cardholders.

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Office of Inspector General • U.S. Department of State • P.O. Box 9778 • Arlington, VA 22219

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