OFFICE OF INSPECTOR GENERAL
U.S. Agency for International Development

Assessment of MCC's FY 2018 Charge Card Programs Shows Risk of Improper Purchases and Payments Has Increased to Moderate

REPORT 0-MCC-20-003-C
NOVEMBER 18, 2019

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MEMORANDUM

DATE: November 18, 2019

TO: Millennium Challenge Corporation, Vice President, Department of Administration and Finance, Chief Financial Officer, Ken Jackson

FROM: Deputy Assistant Inspector General for Audit, Alvin Brown /s/

SUBJECT: Assessment of MCC's Fiscal Year 2018 Charge Card Programs Shows Risk of Improper Purchases and Payments Has Increased to Moderate (0-MCC-20-003-C)

Enclosed is the final report on the risk assessment of Millennium Challenge Corporation (MCC) charge card programs for fiscal year (FY) 2018. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP (CLA) to conduct this engagement. The contract required CLA to perform the engagement in accordance with generally accepted government auditing standards; Government Charge Card Abuse Prevention Act of 2012, Public Law 112-194; and the Office of Management and Budget, Memorandum M-13-21, Implementation of the Government Charge Card Abuse Prevention Act of 2012.

In carrying out its oversight responsibilities, OIG reviewed the audit firm's report and related documentation and inquired of its representatives. The audit firm is responsible for the enclosed auditor's report and the conclusions expressed in it. We found no instances in which CLA did not comply, in all material respects, with applicable standards.

The objective was to assess the risks of illegal, improper, and erroneous purchases and payments in MCC's FY 2018 charge card programs. To answer the objective, CLA analyzed and tested MCC's internal controls over its charge card programs from October 1, 2017, to September 30, 2018. Charge card disbursements during this period totaled $4,676,722.

The audit firm concluded that MCC's charge card programs posed a moderate risk of illegal, improper, or erroneous purchases and payments in FY 2018. Notably, this is an increase in risk from last year's assessment of MCC's charge card programs in FY 2017, which found risk to be low. For example, CLA's testing of the travel card transactions identified noncompliance with the Federal Travel Regulations and MCC's Temporary Duty Travel Policy and Procedures. In this case, for 10 of 30 sampled travel card transactions, the travel cardholders flew Business Class but took rest stop lodging accommodation en route to their duty site—which is a violation of the Federal Travel Regulation.

The auditors made two recommendations to help strengthen MCC's internal controls over its charge card programs. To address the weaknesses identified in the report, we recommend that MCC's Chief Financial Officer:

Recommendation 1. Enforce MCC's travel policy and disallow authorization and reimbursement of lodging expense at rest stop on the Travel Authorization and Travel Voucher when the traveler flies Business Class for any portion of the TDY travel.

Recommendation 2. Enforce MCC's travel policy and disallow reimbursement of early check-in fee when the traveler inappropriately claims additional lodging expense as early check-in fee.

In finalizing the report, the audit firm evaluated MCC's responses to the recommendations. After reviewing that evaluation, we consider both recommendations to be resolved but open pending completion of planned activities. For both recommendations, please provide evidence of final action to OIGAuditTracking@usaid.gov. We appreciate the assistance extended to our staff and the audit firm's employees during the engagement.

Millennium Challenge Corporation's Charge Card Programs Pose a Moderate Risk of Illegal, Improper, or Erroneous Purchases and Payments

Performed by
CliftonLarsonAllen LLP

For
United States Agency for International Development
Office of Inspector General

November 01, 2019

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EXECUTIVE SUMMARY

Why CLA Did This Audit

CliftonLarsonAllen LLP (CLA), was engaged by the United States Agency for International Development (USAID) Office of Inspector General (OIG) to perform a risk assessment of Millennium Challenge Corporation's (MCC's) Charge Card Programs for the period October 1, 2017 to September 30, 2018 (FY 2018). The *Government Charge Card Abuse Prevention Act of 2012* (Charge Card Act), Public Law 112-194, and the Office of Management and Budget (OMB) Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012* requires the OIG to perform an annual risk assessment. The purpose of this assessment is to analyze the risks of illegal, improper, or erroneous purchases and payments in MCC's charge card programs. MCC's charge card programs include the purchase card, travel card, and fleet card programs. USAID OIG uses the results of the risk assessment in determining the necessary scope, frequency, and number of OIG audits or reviews of these programs.

We performed the risk assessment in accordance with performance audit standards as defined in *Generally Accepted Government Auditing Standards* (GAGAS). Our performance period was from April 2019 through October 2019.

What CLA Concluded

Based on the assessment, we determined that MCC's three charge card programs, comprising of the purchase cards, travel cards, and fleet card, pose a moderate risk of illegal, improper, or erroneous purchases and payments. The results of our risk assessment should not be interpreted to conclude that the charge card programs with moderate risk are free of illegal, improper, or erroneous purchases and payments. Likewise, a high risk in the charge card programs should not be interpreted to indicate actual or known illegal, improper, or erroneous purchases and payments.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, VA
November 01, 2019

PROGRAM BACKGROUND

On October 5, 2012, the President signed into law the Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act), Public Law (P.L.) 112-194, which reinforced the Administration's efforts to prevent fraud, waste, and abuse of Government-wide charge card programs.

OMB Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012* (OMB M-13-21), lists the following aspects of compliance with the Charge Card Act:

1. Agency's required safeguards and internal controls;[1]
2. Agency and OIG reports of purchase card violations;[2] and
3. OIG's risk assessments and audits.[3]

OBJECTIVE, SCOPE AND METHODOLOGY

Objective:

The objective of the risk assessment is to assess the risks of illegal, improper, and erroneous purchases and payments in MCC's charge card programs for USAID OIG to determine the necessary scope, frequency, and number of OIG audits or reviews of these programs.[3]

Scope:

CLA assessed the charge card programs as implemented in FY 2018. MCC's charge card programs include purchase card, travel card, and fleet card programs. MCC does not have an integrated card program.[4] MCC's total purchase card spending was less than $10 million in FY 2018. Accordingly, the Agency and OIG semi-annual Joint Purchase Card Violation Report reporting requirement is not applicable to MCC.

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[1] The Charge Card Act requires all executive branch agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts.

[2] The requirement for the agency head and OIG to submit a semi-annual Joint Purchase and Integrated Card Violation Report for submission to OMB is only applicable to agencies with more than $10 million in purchase card spending in the prior fiscal year.

[3] Audits for travel cards are required only for agencies with $10 million in prior year travel spending. The Charge Card Act did not provide a purchase card spending threshold. Each IG should perform an annual purchase card risk assessment. These risk assessments shall guide analysis or audits as necessary.

[4] The integrated card is a combination of two or more business lines on a single card, e.g., purchase and travel.

Table 1 shows the total number of charge cardholders and the total spending in FY 2018 for each charge card program. We assessed the risk on the fleet card program as low as its total spending of $645 was de-minimis and had only one cardholder.

Table 1: FY 2018 Number of Charge Cardholders and Spending

Charge Card Program	Number of Cardholders	FY 2018 Disbursements (Rounded)
Purchase	20	$541,434
Travel	314	$4,134,643
Fleet	1	$645
Total	335	$4,676,722

There were two account types within the GSA SmartPay Program[5] that MCC's cardholders participated in:

1. Centrally Billed Accounts (CBAs) – are established by the agency to pay for official purchases, travel and travel related expenses. Payments are made directly to the bank by the Federal Government.
2. Individually Billed Accounts (IBAs) – are issued to employees to pay for official travel and travel related expenses. Payments are made directly to the bank by the individual.

Our risk assessment included the CBAs but did not include the IBAs. Employee's business travel expenses using the IBA travel cards are reimbursed by MCC through the normal process of submitting travel vouchers.

Methodology:

CLA conducted risk assessments of the purchase card and travel card programs using a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis.

- We reviewed the strengths (S) and weaknesses (W) in the design and the operating effectiveness of the purchase card and the travel card programs' internal controls based on industry standards.
- We identified and evaluated opportunities (O) to establish controls in the purchase and travel card programs; (e.g., third party system controls; merchant codes; and daily, weekly, or monthly charge card spending limits).

[5] Established in 1998, the GSA SmartPay Program is the world's largest government charge card and commercial payment solutions program, providing services to more than 560 Federal agencies, organizations, and Native American tribal governments. GSA SmartPay payment solutions enable authorized government employees to make purchases on behalf of the Federal Government in support of their agency/organization's mission.

- We identified and evaluated the threats (T) to the purchase and travel card programs, their likelihood to occur, and their impact quantitatively and qualitatively.

We conducted the risk assessment in accordance with performance audit standards as defined in *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our objective.

As part of the risk assessment, we:

- Read and understand the requirements of the following applicable laws and regulations:
    - Charge Card Act
    - OMB M-13-21
    - OMB Circular No. A-123, Appendix B, Improving Management and Government Charge Card Programs
    - 49 U.S.C 40118, Fly America Act – requiring Federal travelers to use United States (U.S.) air carrier service for all air travel services funded by the U.S. government
    - MCC Charge Card Program Standard Operating Procedures (August 2013 version, revised in 2016)
    - MCC Charge Card Management Policy (May 2012 version)
    - Individually Billed Account Travel Charge Card Policy (August 2017 version)
    - Travel Office Procedures and Handbook (January 2017 version)
    - Temporary Duty Travel Policy and Procedures (July 2012 version)
- Obtained an understanding of MCC internal controls over its charge card programs and evaluated the design and operating effectiveness of relevant purchase and travel authorizations and payment controls.
- Reviewed OMB A-123, Appendix B test results performed by MCC in FY 2018.
- Ensured that MCC purchase cards and travel cards disbursements data used in our analysis were complete by reconciling it to the disbursement amount reported in the government-wide account statement for FY 2018.
- Analyzed the purchase and travel cards' data attributes to assess the effectiveness of the design of their internal controls.
- Reviewed the FY 2018 Agency Financial Report (AFR) auditors' report and the report on internal control over financial reporting for weaknesses in travel and purchase card programs.
- Judgmentally selected a sample of 20 purchase cards and 30 travel cards transactions for FY 2018 and reviewed related supporting documentation for those transactions, and considered the strengths and weaknesses in MCC's internal controls.

RESULTS

MCC had 335 cardholders in FY 2018. Out of the 335 cardholders, 13 employees had both a purchase card and a travel card.

The purchase card program had 20 cardholders. All charges made on the 20 purchase cards were billed to one CBA. The travel card program had 314 cardholders. All charges made on the 314 travel cards were IBAs except for employee business travel airfares which were billed to one CBA.

We sampled and tested 50 out of 3,413 transactions from MCC's total charge card disbursements in FY 2018 as shown in Table 2.

Table 2: Distribution of Sample Size Tested

Charge Card Program	Sample Count	Total Amount of Sample Tested (Rounded)	FY 2018 Total Number of Transactions	FY 2018 Total Disbursements (Rounded)	Percentage of Disbursements to Total Disbursements
Purchase	20	$23,968	913	$541,434	12%
Travel	30	$184,914	2,485	$4,134,643	88%
Fleet	0	$0	15	$645	<1%
Total	50	$208,882	3,413	$4,676,722	100%

Our detailed testing of the travel card transactions identified noncompliance with the Federal Travel Regulations and MCC's Temporary Duty Travel Policy and Procedures that though are quantitatively de-minimis, the identified noncompliance qualitatively increase the risk of illegal, improper, or erroneous use in the MCC travel card program. These exceptions are included in Appendix I.

In addition, our detailed testing of the purchase and travel card transactions identified internal control deficiencies and noncompliance with MCC's Charge Card Management Policy and Standard Operating Procedures and Temporary Duty Travel Policy and Procedures, respectively that we communicated separately to MCC.

CONCLUSION

Based on the procedures performed, we determined that MCC's three charge card programs comprising of the purchase cards, travel cards, and fleet card pose a moderate risk of illegal, improper, or erroneous purchases and payments. The results of our risk assessment should not be interpreted to conclude that the charge card programs with low risk are free of illegal, improper, or erroneous purchases and payments. Likewise, a high risk in the charge card programs should not be interpreted to indicate actual or known illegal, improper, or erroneous purchases and payments.

AUDITORS' COMMENTS

Management concurs with recommendation 1 in Appendix I on the enforcement of MCC's travel policy but did not agree with the portion of the recommendation disallowing authorization and reimbursement of lodging expenses at rest stop when the traveler flies Business Class. Management's justification of forced layover making the expenses allowable for the 10 cases flagged was not provided during our vetting of the findings process, and at the exit conference. We were only made aware of the forced layover justification in the response to our draft report. We did not audit management response and provide no conclusion on it. Based on our audit results, the finding on non-compliance with MCC policy stands.

Management concurs with recommendation 2 in Appendix I on the enforcement of MCC's policy regarding reimbursement for early check-in and added that further clarification will be incorporated in MCC's Travel Policy update. Management indicated in its response that the early checked-in were reviewed and approved by management as miscellaneous expenses. We disagree that these expenses were categorized as miscellaneous expenses as these were clearly lodging expenses as defined in the FTR. Based on our audit results, the finding of non-compliance with MCC policy stands.

Travel Card (TC) Testing

We judgmentally selected 30 out of 2,485 travel card transactions that accounted for $184,914 out of the total travel card cost of $4,134,643. We tested both the airfare and travel costs for each traveler and noted the following non-compliance issues:

TC Exception 1: For 10 of 30 travel card transactions, sample error rate: 33% ($1,116 out of $184,914 sample population), the travel cardholders flew Business Class but took rest stop lodging accommodation en route to their duty site.

Criteria: Federal Travel Regulation, Sections 301-10.125 and 301-11.20, states,

> *§301-10.125 - When may I use the 14-hour rule to travel other than coach-class (see §301-10.123(b)(6))?*
>
> *(c) If other than coach-class accommodation is authorized based on the 14-hour rule then you will not be eligible for a rest stop en route or a rest period upon arrival at your duty site, in accordance with internal agency procedures pursuant to §301-70.102.*
>
> *§301-11.20 - May my agency authorize a rest period for me while I am traveling?*
>
> (a) Your agency may authorize a rest period not in excess of 24 hours at either an intermediate point or at your destination if:
>   (1) Either your origin or destination point is OCONUS;
>   (2) Your scheduled flight time, including stopovers, exceeds 14 hours;
>   (3) Travel is by a direct or usually traveled route; and
>   (4) Travel is by coach-class service.

TC Exception 2: For 3 of 30 travel card transactions, sample error rate: 10% ($1,562 out of $184,914 sample population), the travel cardholders paid to check in early at rate equivalent to daily lodging rate. This is in addition to the normal lodging booked for TDY purposes. The travel cardholders incurred double lodging expense for *single* day of stay.

Criteria: MCC Temporary Duty Travel Policy and Procedures (effective 7/17/12), Appendix 2 Guidelines for Reimbursable Miscellaneous Expenses, states,

> **Early Check-In Fees**
> Guidance: Travelers are encouraged to try to arrange for a complimentary early check-in at the time the hotel reservation is made. MCC travelers are eligible for reimbursement for early check-in fees if:
>
> - The hotel room is not being used as a day room;
> - The hotel room is not a forced overnight stay due to flight schedules;
> - The hotel room is not a rest stop;

- ○ The hotel site is the final destination for the traveler; and
- ○ The traveler's flight arrives after midnight local time.

Corrective Actions Recommended:

We recommend MCC to:

1. Enforce MCC's travel policy and disallow authorization and reimbursement of lodging expense at rest stop on the Travel Authorization and Travel Voucher when the traveler flies Business Class for any portion of the TDY travel.

2. Enforce MCC's travel policy and disallow reimbursement of early check-in fee when the traveler inappropriately claims additional lodging expense as early check-in fee.

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

DATE:	October 31, 2019
TO:	Alvin Brown Deputy Assistant Inspector General for Audit Office of Inspector General United States Agency for International Development Millennium Challenge Corporation
FROM:	Ken Jackson /s/ Vice President and Chief Financial Officer Department of Administration and Finance Millennium Challenge Corporation
SUBJECT:	MCC's Management Response to the Draft Report, "Assessment of MCC's FY 2018 Charge Card Programs Shows Risk of Improper Purchases and Payments Has Increased to Moderate," dated October 25, 2019

KENNETH S JACKSON (affiliate)

Digitally signed by KENNETH S JACKSON (affiliate)
Date: 2019.11.01 09:36:38 -04'00'

The Millennium Challenge Corporation (MCC) appreciates the opportunity to review the draft report on the Office of Inspector General (OIG)'s audit, "Assessment of MCC's FY 2018 Charge Card Programs Shows Risk of Improper Purchases and Payments Has Increased to Moderate," dated October 25, 2019. MCC concurs with the conclusion of the report and deemed the report constructive in improving our Charge Card Program Processes and related controls. MCC will strive in FY 2020 to reduce Charge Card Program Risk to a low level.

The report identified two recommendations as part of the audit. Accordingly, MCC provides their response below.

Recommendation #1 – Enforce MCC's travel policy and disallow authorization and reimbursement of lodging expense at rest stop on the Travel Authorization and Travel Voucher when the traveler flies Business Class for any portion of the TDY travel.

MCC Management Response – MCC concurs with the recommendation for enforcement of MCC's travel policy regarding reimbursement of lodging expense at rest stop on the Travel Authorization and Travel Voucher when the traveler flies Business Class.

In each of the 10 cases flagged for policy non-compliance, the travelers were reimbursed for lodging while incurring a forced layover as a result of airline flight scheduling, not authorized rest stops. Since neither the Federal Travel Regulation (FTR) nor MCC's Travel Policy specifically restrict reimbursement for lodging during forced layovers, reimbursements were authorized based on management discretion with considerations for safety and security of travelers during overnight periods.

The reimbursement for lodging during forced layovers will be clarified in MCC's Travel Policy update which is currently in staffing. MCC will complete this task no later than March 31, 2020.

Recommendation #2 – Enforce MCC's travel policy and disallow reimbursement of early check-in fee when the traveler inappropriately claims additional lodging expense as early check-in fee.

MCC Management Response – MCC concurs with the recommendation for enforcement of MCC's travel policy regarding reimbursement for early check-in.

MCC's current policy allows for reimbursement of early and late check-in of hotels based upon specific parameters and is within the Agencies discretion to identify what an agency will pay under miscellaneous expenses (FTR 301-12.1 and 301-70.300). Early check-in for arrivals after midnight is considered a lodging claim for the preceding calendar day. In each of the cases flagged in the audit for policy non-compliance, early check-in reimbursement were reviewed and approved by management as miscellaneous expenses.

Further clarification on early check-in reimbursement will be incorporated in MCC's Travel Policy update which is currently in staffing. MCC will complete this task no later than March 31, 2020.

If you have any questions or require additional information, please contact me at 202-521-2686 or Jacksonks@mcc.gov. Additionally, you can also contact Jude Koval, Director of Internal Controls and Audit Compliance (ICAC), at 202-521-7280 or Kovaljg@mcc.gov.

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