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Office of Inspector General  
United States Department of State

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AUD-CGI-20-13

Office of Audits

December 2019

# **Information Report: Department of State 2019 Purchase Charge Card Risk Assessment**

INFORMATION REPORT

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## Summary of Review

The Government Charge Card Abuse Prevention Act of 2012,<sup>1</sup> as implemented by Office of Management and Budget (OMB) Memorandum M-13-21, requires the Office of Inspector General (OIG) to conduct annual periodic risk assessments of agency purchase and travel card programs to 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 conducted a risk assessment of the Department of State's (Department) purchase card program. Specifically, OIG reviewed the Department's FY 2018 purchase card data and concluded that the risk of illegal, improper, or erroneous use in the Department's purchase card program is "high." OIG based its conclusion on the purchase card program's size, internal controls, training, previous audits, violation reports, and OIG Office of Investigations (INV) observations.

Although OIG concluded that risk to the purchase card program is "high," OIG is not recommending that an audit of the Department's purchase card program be included in OIG's FY 2021 through FY 2022 work plan because OIG recently audited the program and the Department is currently taking action to rectify the deficiencies reported. Therefore, OIG encourages the Department's purchase card manager to fully implement the recommendations made in OIG's March 2019 purchase card report and continue prudent oversight of the purchase card program to ensure that internal controls intended to safeguard taxpayer funds are implemented and followed by Department purchase cardholders.

## OBJECTIVE

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

## BACKGROUND

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The Government Charge Card Abuse Prevention Act of 2012, as implemented by OMB Memorandum M-13-21,<sup>2</sup> requires OIG to conduct annual periodic risk assessments of agency purchase and travel card programs that identify and analyze risks of illegal, improper, or erroneous purchases for use in determining the scope, frequency, and number of periodic audits of these programs.<sup>3</sup> In addition, OMB Memorandum M-13-21 outlines OIG risk

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

assessment requirements as well as additional required internal controls for agency charge card programs. Furthermore, OMB issued guidance<sup>4</sup> 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>5</sup>

The 2019 risk assessment of the Department's purchase card program, which covers FY 2018 spending data, is the third risk assessment on the Department's purchase card program conducted by OIG. Department officials reported that in FY 2018 2,251 purchase cardholders made purchases totaling approximately \$109.5 million.

The purpose of this information report is to convey the results of this risk assessment and promote the 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 this risk assessment.

## RESULTS

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### Department Purchase Card Program Risk Assessment Results

OIG determined that the risk of illegal, improper, or erroneous use in the Department's purchase card program is "high." However, OIG is not recommending an audit of the Department's purchase card program be included in OIG's FY 2021 through FY 2022 work plan because OIG recently audited the program<sup>6</sup> and the Department is currently taking action to rectify the deficiencies reported. Therefore, OIG encourages the Department's purchase card manager to fully implement the recommendations offered in OIG's March 2019 report and continue prudent oversight of the purchase card program to ensure internal controls intended to safeguard taxpayer funds are implemented and followed by Department purchase 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 purchase card program was generally adequate. Overall, 100 percent (57 of 57) of the internal controls assessed complied with established criteria,<sup>7</sup> including 100-percent (29 of 29) compliance with internal controls specific to purchase cards. Because all the internal controls assessed complied

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<sup>4</sup> OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control" (July 15, 2016), Appendix B, "Improving the Management of Government Charge Card Programs" (January 15, 2009).

<sup>5</sup> On August 27, 2019, OMB revised OMB Circular A-123, Appendix B, "A Risk Management Framework for Government Charge Card Programs." Because OIG assessed FY 2018 purchase card data during this risk assessment, OIG used the January 2009 OMB guidance.

<sup>6</sup> OIG, *Audit of Department of State Purchase Card Program* (AUD-CGI-19-24, March 2019).

<sup>7</sup> See Appendix A: Purpose, Scope, and Methodology of this report for details on the criteria used.

with established 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 purchase cardholders and approving officials to complete appropriate training related to purchase charge cards.

OIG issued a report of its audit of the Department’s purchase card program in March 2019.<sup>8</sup> That report included five recommendations. As of October 7, 2019, two recommendations had been implemented and closed and three recommendations remain open, pending further action. Although three recommendations from OIG’s 2019 report remain open, each is considered resolved because the Department is making progress toward fully implementing the open recommendations. Additionally, annual reviews at 245 bureaus and posts were certified in FY 2018. Therefore, for the purposes of this risk assessment, OIG determined that the risk associated with the prior audit work criterion is “medium.”

In addition, during OIG’s audit of the Department’s purchase card program, OIG discovered that the Department’s semi-annual Joint Purchase and Integrated Card Violations Reports, submitted to OMB between April 2014 and March 2017, were incomplete and untimely. Specifically, the reports contained only information from OIG and were not submitted within the 120-day requirement. OIG issued a Management Assistance Report<sup>9</sup> to prompt attention of the deficiencies noted and recommended they be corrected. In response, the Department took action to achieve accurate and timely violations reporting in FY 2019. However, for FY 2018, which is the period covered by this risk assessment, the Department did not submit complete information on violations. Therefore, for the purposes of this risk assessment, OIG considers the risk associated with the violation reports criterion “high” for FY 2018, even though OIG acknowledges that the deficiencies reported in the aforementioned Management Assistance Report were corrected in FY 2019.

With respect to the INV observation criterion, INV forensic auditors stated that the Department purchase card issues they identified stemmed from a lack of oversight due to inadequate program staffing and cardholders not knowing or understanding Department policy. The information provided by INV resulted in a “high” rating for this criterion. The individual criteria ratings and overall combined rating are shown in Table 1.

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<sup>8</sup> OIG, *Audit of Department of State Purchase Card Program* (AUD-CGI-19-24, March 2019).

<sup>9</sup> OIG, *Management Assistance Report: Process Used by the Department of State To Prepare the Joint Purchase and Integrated Card Violation Report Requires Improvement* (AUD-CGI-18-26, February 2018).

**Table 1: 2019 Risk Rating by Criterion**

Criterion	2019 Rating
Internal Controls	Low
Training	Low
Previous Audits	Medium
Violation Reports	High
INV Observation	High
<b>Combined</b>	<b>Medium*</b>

\* Individual criteria 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 purchase card program information and documentation.

## Impact and Likelihood Factor

Department officials reported that 2,251 Department purchase cardholders made purchases totaling approximately \$109.5 million in FY 2018. Because the dollar amount of the total purchases made was more than \$10 million and the number of Department purchase cardholders was more than 500, the overall impact and likelihood factor resulted in a “very high” rating, as shown in Table 2.<sup>10</sup>

**Table 2: 2019 Impact and Likelihood Factor**

		2019 Rating
Impact	\$109.5 million	High
Likelihood	2,251 cardholders	High
<b>Impact and Likelihood Factor</b>		<b>Very High</b>

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

## Risk Assessment

OIG determined that the risk of illegal, improper, or erroneous use in the Department purchase card program is “high.” However, OIG is not recommending an audit of the Department’s purchase card program be included in OIG’s FY 2021 through FY 2022 work plan because OIG recently audited the Department’s purchase card program<sup>11</sup> and the Department is presently taking action to rectify the deficiencies reported. As such, OIG encourages the Department’s purchase card manager to implement fully the recommendations offered in OIG’s March 2019 report and continue prudent oversight of the purchase card program to ensure internal controls intended to safeguard taxpayer funds are implemented and followed by Department purchase cardholders.

<sup>10</sup> 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.

<sup>11</sup> OIG, *Audit of Department of State Purchase Card Program* (AUD-CGI-19-24, March 2019).

## APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

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The Office of Inspector General (OIG) performed this risk assessment from October 2019 to December 2019. The objective of this assessment was to establish the risk of illegal, improper, and erroneous use of the Department of State's (Department) 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 this risk assessment, OIG considered the Department's purchase card program size, internal controls, training, previous audits, violation reports, and OIG Office of Investigations (INV) observations. OIG conducted this risk assessment using industry standard principles for risk management.<sup>12</sup>

This risk assessment was not an audit and therefore was not conducted in accordance with generally accepted government auditing standards. The results of this 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 were to be audited, an audit team might 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 internal 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 on which the OIG Office of Audits should focus its limited resources.

### Assessment Criteria

To conduct this risk assessment, OIG reviewed FY 2018 purchase card data, documentation, and information provided by Department officials.<sup>13</sup> OIG assessed the purchase card program using five criteria: internal controls, training, previous audits, violation reports, and INV observations. OIG assigned a rating of "low," "medium," or "high" to identify the risk associated with each factor.<sup>14</sup>

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<sup>12</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>13</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 \$109.5 million in FY 2018.

<sup>14</sup> OIG team members used professional judgment to determine compliance with requirements in assessing risk ratings for each factor.

### ***Internal Controls***

OIG used criteria identified in the Government Charge Card Abuse Prevention Act of 2012<sup>15</sup> and Office of Management and Budget (OMB) Circular A-123, Appendix B,<sup>16</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 Circular A-123 requirement that agencies perform periodic reviews of spending and transaction limits to ensure appropriateness.<sup>17</sup> Purchase card-specific controls, such as the requirement that each purchase cardholder and individual issued a convenience check is assigned an approving official other than the cardholder with the authority to approve or disapprove transactions, apply only to purchase card programs.<sup>18</sup> OIG assigned a rating of "low," "medium," or "high" on the basis of documented compliance with required internal controls. Specifically, OIG assigned a "high" rating to programs with a high percentage (above 50 percent) of non-compliant internal controls. OIG assigned a "low" rating to programs with a high percentage (above 75 percent) 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 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. Specifically, 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 purchase 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 in the last 10 years and recommendations had been implemented. OIG assigned a "medium" rating for programs that had been audited in the last 10 years but had not fully implemented recommendations. The ratings were mitigated if the program provided documentation of meaningful internal reviews (conducted by the agency).

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<sup>15</sup> Pub. L. No. 112-194, Sec. 3(h)(1)(A)-(I).

<sup>16</sup> OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control" (July 15, 2016), Appendix B, "Improving the Management of Government Charge Card Programs" (January 15, 2009).

<sup>17</sup> Ibid., Attachment 5, "Best Practices in Managing Government Charge Card Programs."

<sup>18</sup> Pub. L. No. 112-194, Sec. 2(a)(2).

## **Violation Reports**

Violation reports are required for purchase card programs that exceed \$10 million in spending annually.<sup>19</sup> OIG assigned a “low” rating if a report was provided and a low number of violations had been reported in relation to the total number of purchase cardholders. OIG assigned a “medium” rating if a report was provided and a medium number of violations had been reported in relation to 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 had been reported in relation to the total number of purchase cardholders.

## **INV Observations**

OIG assigned ratings of “low,” “medium,” or “high” for the Department’s purchase 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 mining<sup>20</sup> efforts being used to review Department purchase card transactions. INV provided information on the results of its data mining analyses and interviews with Department officials responsible for the purchase 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 purchase card program 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 A.1.

**Table A.1. Impact and Likelihood Ratings**

<b>Rating</b>	<b>Impact</b>	<b>Likelihood</b>
<b>Low</b>	Less than \$1 million	Fewer than 250 cardholders
<b>Medium</b>	\$1 million to \$10 million	250 to 500 cardholders
<b>High</b>	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 purchase card program.

<sup>19</sup> OMB Memorandum M-13-21, “Implementation of the Government Charge Card Abuse Prevention Act of 2012,” September 6, 2013.

<sup>20</sup> 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 Factor Heat Map Table**

		<b>Factor</b>		
		Medium	High	Very High
<b>Impact Rating</b>	<b>Higher</b>	Medium	High	Very High
	<b>Medium</b>	Low	Medium	High
	<b>Lower</b>	Very Low	Low	Medium
		<b>Lower</b>	<b>Medium</b>	<b>Higher</b>
		<b>Likelihood Rating</b>		

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 with the combined impact and likelihood factor found in Table A.2 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 A.3 to arrive at the overall risk assessment rating.

**Table A.3. Final Risk Assessment Heat Map Table**

		<b>Final Rating</b>		
		Medium	High	Very High
<b>Impact and Likelihood Factor</b>	<b>Very High</b>	Medium	High	Very High
	<b>High</b>	Medium	High	Very High
	<b>Medium</b>	Low	Medium	High
	<b>Low</b>	Very Low	Low	Medium
	<b>Very Low</b>	Very Low	Low	Medium
		<b>Low</b>	<b>Medium</b>	<b>High</b>
		<b>Combined Criteria Rating</b>		

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

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