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Information Report: Department of State 2016 Travel Card Risk Assessment

INFORMATION REPORT

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Summary of Review

To assess risk associated with the travel card program at the Department of State (Department), OIG reviewed the Department's FY 2015 travel card data and concluded that the risk of illegal, improper, or erroneous use in the Department travel card program is "medium." This conclusion is based on Department travel 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 the Department's travel card program be included in OIG's FY 2018 – FY 2019 work plan. However, OIG encourages the Department travel card program manager to fully implement the recommendations made in OIG's *Audit of Department of State Travel Card Program*, (AUD-CGI-16-48, September 2016), conduct prudent oversight of the travel card program, and ensure that internal controls intended to safeguard taxpayer funds are fully implemented and followed among Department travel 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, 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.³

This 2016 risk assessment, which covers FY 2015 spending data, is the second such review conducted by OIG with regard to the Department's travel card program.⁴ Department officials reported that 11,215 travel cardholders (10,255 individually billed accounts and 960 centrally billed accounts) made purchases totaling approximately \$238 million (\$25.7 million for individually billed accounts and \$212.7 million for centrally billed accounts) in FY 2015.

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

⁴ For 2015, only the Department's purchase card program was evaluated because OIG was auditing the Department's travel card program at the time the risk assessment was conducted.

PURPOSE, SCOPE, AND METHODOLOGY

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 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 (OIG/INV) observations. OIG conducted the risk assessment using industry standard principles for risk management.⁵

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 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 2015 travel card data, documentation, and information provided by Department officials.⁶ OIG assessed the travel card program on four criteria: 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.

Internal Controls

OIG used criteria identified in Public Law 112-194⁷ and OMB Circular A-123⁸ to assess internal controls associated with the Department's travel card program. OIG assessed the travel card program for 28 general internal controls and 18 internal controls specific to travel card

⁵ 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.

⁶ 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 \$238 million in FY 2015.

⁷ Public Law 112-194, "Government Charge Card Abuse Prevention Act of 2012," October 5, 2012.

⁸ OMB Circular A-123, "Management's Responsibility for Internal Control," Appendix B, "Improving the Management of Government Charge Card Programs," January 15, 2009.

programs (a total of 46 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. Travel card specific controls apply only to travel card programs, such as the Public Law 112-194 requirement that rebates and refunds based on prompt payment, sales volume, or other actions by the agency on travel charge card accounts are monitored for accuracy. 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 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.

Previous Audits

OIG reviewed the results of previous audits, as well as the implementation status of associated recommendations, for the Department's travel 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 travel 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 mining⁹ efforts being used to review Department travel card transactions. OIG/INV provided information on the results of its 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 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 1.

⁹ Data mining is the practice of searching through large amounts of computerized data to find useful patterns or trends.

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 travel 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
Impact Rating	Higher	Medium	High	Very High
	Medium	Low	Medium	High
	Lower	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 travel 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	High	Very High
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

Department Travel Card Program Risk Assessment Results

OIG's final determination of 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 an audit of the Department's travel card program be included in OIG's FY 2018–FY 2019 work plan.¹⁰ However, OIG encourages the Department travel card program manager to fully implement recommendations made in OIG's travel card report.¹¹ In that report, OIG made a total of seven recommendations, six of which were resolved but remained open as of September 27, 2016. The remaining recommendation was unresolved and remained open, pending a response from the Office of the Director General for Human Resources. In addition, the Department should conduct prudent oversight of the travel card program and ensure that internal controls intended to safeguard taxpayer funds are fully implemented and followed among Department travel cardholders.

Criteria Ratings

According to documentation and information provided by Department officials, OIG determined that the travel card program compliance with required internal controls was generally good—overall, 93 percent (43 of 46) of internal controls assessed were in compliance with criteria,¹² including 83-percent (15 of 18) compliance with travel 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 travel card program manager provided detailed documentation and policies requiring cardholders and approving officials to complete appropriate training related to travel charge cards.

OIG performed its most recent audit of the Department travel card program from 2015 to 2016 (report issued in September 2016).¹³ The report included a total of seven recommendations, six of which were resolved but remained open as of September 27, 2016. The remaining recommendation was unresolved and remained open, pending a response from the Office of the Director General for Human Resources. Because this report and its associated recommendations were issued less than 3 months before the risk assessment was conducted, OIG determined that the risk associated with the prior audit work criterion was "low."

OIG/INV forensic auditors stated that as a result of the recent audit of the Department's travel card program, OIG/INV has opened cases related to 10 of 255 individuals identified as having obtained unauthorized cash advances. In addition, OIG/INV plans to continue to monitor the new processes

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

¹¹ OIG, *Audit of Department of State Travel Card Program*, (AUD-CGI-16-48, September 2016).

¹² See the Purpose, Scope, and Methodology section of this report for details of criteria used.

¹³ OIG, *Audit of Department of State Travel Card Program*, (AUD-CGI-16-48, September 2016).

that the Department's travel card program office has implemented, as well as working with the office to implement a split disbursement policy. The input received from OIG/INV resulted in a "medium" 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	Low
OIG/INV Observation	Medium
Combined	Low

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

Impact and Likelihood Factor

Department officials reported that 11,215 Department travel cardholders made purchases totaling \$238 million in FY 2015. On the basis of the dollar amount of total purchases made and the number of Department cardholders, the overall impact and likelihood factor resulted in a "very high" rating, as shown in Table 5.

Table 5. Impact and Likelihood Factor

		Rating
Impact	\$238 million	High
Likelihood	11,215 cardholders	High
Impact and Likelihood Factor	Very High	

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

RISK ASSESSMENT

OIG's final determination of 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 an audit of the Department's travel card program be included in OIG's FY 2018–FY 2019 work plan. However, OIG encourages the Department travel card program manager to fully implement the recommendations made in OIG's travel card report,¹⁴ conduct prudent oversight of the travel card program, and ensure that internal controls intended to safeguard taxpayer funds are fully implemented and followed among Department travel cardholders.

¹⁴ OIG, *Audit of Department of State Travel Card Program*, (AUD-CGI-16-48, September 2016).

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