



OIG

Office of Inspector General

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Office of Audits

December 2017

Information Report: Department of State 2017 Charge Card Risk Assessment

INFORMATION REPORT

Summary of Review

The Government Charge Card Abuse Prevention Act of 2012 requires the Office of Inspector General (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.

OIG is currently performing an audit of the Department of State (Department) purchase card program, based on OIG's assessment of the purchase card program in 2016. In that risk assessment, OIG concluded that the risk of illegal, improper, or erroneous use in the Department's purchase card program was "high." As a result, OIG initiated an audit of the Department's purchase card program in September 2017. Because the audit is designed to identify illegal, improper, or erroneous purchases and payments, OIG did not conduct a risk assessment of the purchase card program in 2017 but instead will report the results of that audit.

OIG did, however, conduct a risk assessment of the Department's travel card program in 2017. Specifically, OIG reviewed the Department's FY 2016 travel card data and concluded that the risk of illegal, improper, or erroneous use in the Department's travel card program is "medium." OIG based its conclusion on the travel card program's size, internal controls, training, previous audits, and OIG Office of Investigations (INV) observations.

On the basis of OIG's risk assessment of the travel card program, OIG is not recommending that an audit of the Department's travel card program be included in OIG's FYs 2019 through 2020 work plan. However, OIG encourages the Department's 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 by Department travel card holders.

BACKGROUND

The Government Charge Card Abuse Prevention Act of 2012¹ requires OIG to conduct periodic assessments of agency purchase and travel card programs to identify and analyze risks of illegal, improper, or erroneous purchases and payments to determine the scope, frequency, and number of periodic audits of these programs. The Office of Management and Budget (OMB) issued implementing guidance² that outlines OIG risk assessment requirements, as well as additional required internal controls for agency charge card programs. In addition, OMB previously issued

¹ Pub. L. No. 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).

guidance that prescribes policies and procedures regarding how agencies should maintain internal controls to reduce the risk of fraud, waste, and error in Government charge card programs.³

OIG concluded in its 2016 purchase card risk assessment⁴ that the risk of illegal, improper, or erroneous use in the Department's purchase card program was "high." As a result of the 2016 risk assessment, an audit of the Department's purchase card program (which began in September 2017) was included in the OIG FYs 2017 through 2018 work plan. Because the OIG is currently conducting an ongoing audit of the purchase card program, the risk assessment in this report only evaluates the Department's travel card program.

The 2017 risk assessment of the Department's travel card program, which covers FY 2016 spending data, is the third risk assessment on the Department's travel card program conducted by OIG. Department officials reported that in FY 2016, 10,720 travel cardholders (9,820 individually billed accounts and 900 centrally billed accounts) made purchases totaling approximately \$245 million (\$25.5 million for individually billed accounts and \$219.9 million for centrally billed accounts).

PURPOSE, SCOPE, AND METHODOLOGY

OIG performed this risk assessment from October to November 2017. 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 INV's 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

³ OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," Appendix B, "Improving the Management of Government Charge Card Programs" (July 15, 2016).

⁴ OIG, *Information Report: Department of State 2016 Purchase Card Risk Assessment* (AUD-CGI-17-25, December 2016).

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).

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 2016 travel card data, documentation, and information provided by Department officials.⁶ OIG assessed the travel card program based on four criteria: internal controls, training, previous audits, and INV observations. OIG assigned a rating of "low," "medium," or "high," to identify the risk associated with each factor.

Internal Controls

OIG used criteria identified in OMB A-123⁷ and the Government Charge Card Abuse Prevention Act of 2012⁸ to assess internal controls associated with the Department's travel card program. OIG assessed the travel card program for 28 general internal controls and 19 internal controls specific to travel card programs (a total of 47 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 requirement⁹ that agencies monitor the accuracy of rebates and refunds that are based on prompt payment, sales volume, or other agency actions on travel charge card accounts. 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

To assess the Department's travel 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 when a program had been audited recently and recommendations had been implemented. OIG

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 \$245 million in FY 2016.

⁷ OMB Circular A-123, Appendix B (July 15, 2016).

⁸ Pub. L. No. 112-194, (October 5, 2012).

⁹ Ibid.

assigned a “medium” rating for programs that had been audited recently but had not fully implemented recommendations. The ratings were mitigated if the program provided documentation of meaningful internal reviews (conducted by the agency).

INV Observation

OIG assigned ratings of “low,” “medium,” or “high” for the Department’s travel 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 mining¹⁰ efforts being used to review Department travel card transactions. INV provided information on the results of its data mining 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’s 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.

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: Generated by OIG based on the 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.

¹⁰ Data mining is the practice of searching through large amounts of computerized data to find useful patterns or trends.

Table 2. Impact and Likelihood Factor Heat Map

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

Source: Generated by OIG based on a 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

		Final Rating		
		Medium	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: Generated by OIG based on a review of industry standard principles for risk management.

RESULTS

Department Travel Card Program Risk Assessment Results

OIG determined that 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 FYs 2019 through 2020 work plan.¹¹ However, OIG encourages the Department travel card program manager to fully implement

¹¹ OIG issues a 2-year work plan.

recommendations made in OIG's 2016 travel card report.¹² In that report, OIG made a total of seven recommendations, all of which were resolved but remained open as of August 8, 2017. 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 by Department travel card holders.

Criteria Ratings

According to documentation and information provided by Department officials, OIG determined that the Department's compliance with required internal controls for the travel card program was generally good. Overall, 94 percent (44 of 47) of the internal controls assessed were in compliance with criteria,¹³ including 84 percent (16 of 19) compliance with internal controls specific to travel cards. Because the majority of internal controls assessed (94 percent) were in compliance with 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 travel card holders and approving officials to complete appropriate training related to travel charge cards.

OIG reported results from a previous audit of the Department's travel card program in September 2016.¹⁴ That report included a total of seven recommendations, all of which were considered resolved but as of August 8, 2017, remained open awaiting full implementation, which is scheduled for FY 2018. Because the 2016 report and its associated recommendations were issued less than 18 months before this report's risk assessment was conducted, and because the Department conducted internal reviews of its domestic bureau Agency/Organization Program Coordinators, OIG determined that the risk associated with the prior audit work criterion was "low."

INV forensic auditors stated that, as a result of the recent audit of the Department's travel card program, INV opened cases related to 10 of 255 individuals identified as having obtained unauthorized cash advances. In one case, an individual received a 3-day suspension; the remaining nine cases resulted in reprimand letters, but no criminal charges were filed. The guidance received from INV resulted in a "medium" rating for this criterion. The individual criteria ratings and overall combined rating are shown in Table 4.

¹² OIG, *Audit of Department of State Travel Card Program* (AUD-CGI-16-48, September 2016).

¹³ See the Purpose, Scope, and Methodology section of this report for details on the criteria used.

¹⁴ *Ibid.*

Table 4. 2017 Risk Rating by Criteria

Criteria	2017 Rating
Internal Controls	Low
Training	Low
Previous Audits	Low
INV Observation	Medium
<i>Combined</i>	<i>Low</i>

Source: Generated by OIG based on its analysis of travel card program information and documentation.

Impact and Likelihood Factor

Department officials reported that 10,720 Department travel card holders made purchases totaling \$245 million in FY 2016. Because the dollar amount of the total purchases made was more than \$10 million and the number of Department travel card holders was more than 500, 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	\$245 million	High
Likelihood	10,720 cardholders	High
<i>Impact and Likelihood Factor</i>		<i>Very High</i>

Source: Generated by OIG based on its analysis of travel card program information and documentation.

RISK ASSESSMENT

OIG determined that 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 that an audit of the Department’s travel card program be included in OIG’s FYs 2019 through 2020 work plan. However, OIG encourages the Department’s travel card program manager to fully implement the recommendations made in OIG’s previous travel card audit report,¹⁵ conduct prudent oversight of the travel card program, and ensure that internal controls intended to safeguard taxpayer funds are fully implemented and followed by Department travel card holders.

¹⁵ Ibid.

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