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OIG

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Office of Audits

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**Information Report: International
Boundary and Water Commission, United
States and Mexico, U.S. Section, 2017
Charge Card Risk Assessment**

INFORMATION REPORT

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Summary of Review

The Government Charge Card Abuse Prevention Act of 2012¹ 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.

To assess risk associated with the purchase card program at the International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), OIG reviewed USIBWC's FY 2016 purchase card data and concluded that the risk of illegal, improper, or erroneous use in the USIBWC purchase card program is "low." This conclusion is based on USIBWC's purchase card program size, internal controls, training, previous audits, and OIG Office of Investigations (INV) observations.

On the basis of the results of this assessment, OIG is not recommending an audit of USIBWC's purchase card program be included in OIG's FY 2019 through FY 2020 work plan. However, OIG encourages USIBWC officials to conduct prudent oversight of the purchase card program and ensure that internal controls intended to safeguard taxpayer funds are fully implemented and followed by USIBWC purchase card holders.

BACKGROUND

The Government Charge Card Abuse Prevention Act of 2012 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.² The Office of Management and Budget (OMB) issued implementing guidance³ that outlines 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.⁴

The 2017 risk assessment of USIBWC's purchase card program, which covers FY 2016 spending data, is the fourth risk assessment on USIBWC's charge card programs conducted by OIG.⁵

¹ Pub. L. No. 112-194 (October 5, 2012).

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

³ OMB Memorandum M-13-21, "Implementation of the Government Charge Card Abuse Prevention Act of 2012" (September 6, 2013).

⁴ OMB Circular A-123, "Management's Responsibility for Internal Control," Appendix B, "Improving the Management of Government Charge Card Programs" (July 15, 2016).

⁵ OMB M-13-21, *Inspector General Risk Assessments and Audits*, Footnote 6, states that annual review is only for travel card programs with prior year spending of more than \$10 million. For 2017, OIG only evaluated USIBWC's purchase card program because the travel card program had less than \$10 million in spending, which is below the threshold requiring an assessment.

USIBWC officials reported that in FY 2016, 21 purchase card holders made purchases totaling approximately \$1.1 million.

PURPOSE, SCOPE, AND METHODOLOGY

OIG performed this risk assessment from October to December 2017. The objective of this assessment was to establish the risk of illegal, improper, and erroneous use of USIBWC's purchase card program and recommend the scope, frequency, and number of audits that should be conducted based on the aforementioned risk assessment. To perform the risk assessment, OIG considered USIBWC's purchase card program size, internal controls, training, previous audits, and INV's observations. OIG conducted the risk assessment using industry standard principles for risk management.⁶

This 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 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 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 purchase card data and documentation, as well as information provided by USIBWC officials.⁷ OIG assessed the purchase card program based on four criteria:⁸ 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.

⁶ 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).

⁷ In performing this risk assessment, OIG used purchase card data reported by USIBWC without independently verifying the data for accuracy and completeness. USIBWC reported that purchase cardholders made purchases totaling approximately \$1.1 million in FY 2016.

⁸ OMB M-13-21, *Reports of Purchase Card Violations*, states that agencies that spend more than \$10 million annually using purchase cards are required to submit annual "violation reports." Because USIBWC did not have more than \$10 million in purchases, it did not prepare a violation report. Therefore, OIG did not consider this factor during the USIBWC purchase card program risk assessment.

Internal Controls

OIG used criteria identified in Public Law 112-194⁹ and OMB A-123¹⁰ to assess internal controls associated with USIBWC'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.¹¹ Purchase card specific controls apply only to purchase card programs, such as the requirement that agencies have policies in place to ensure that each cardholder is assigned an approving official with authority to approve or disapprove transactions.¹² OIG assigned a rating of "low," "medium," or "high," on the basis of documented compliance with required internal controls.

Training

OIG assigned USIBWC'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

To assess USIBWC'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 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 had not fully implemented recommendations. The ratings were mitigated if the program provided documentation of meaningful internal reviews (conducted by the agency).

INV Observations

OIG assigned ratings of "low," "medium," or "high" for USIBWC'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 mining¹³ efforts being used to review USIBWC purchase card transactions. INV provided information on the results of its data mining analyses and interviews with USIBWC officials responsible for the purchase card program.

⁹ Pub. L. No. 112-194, Sec. 2 § 1909(a)(1)-(13), § 1909(c)(1) and (3)(A) and (B), and § 1909 (d)(1)-(3).

¹⁰ OMB Circular A-123, Appendix B §§ 2.3, 3.1, 3.4, 4.1, 4.2, 4.3, 4.4, 4.8, 12.2, and Attachment 5, *Best Practices in Managing Government Charge Card Programs*.

¹¹ *Ibid.*

¹² *Ibid.*

¹³ Data mining is the practice of searching through large amounts of computerized data to find useful patterns or trends.

Impact and Likelihood

Impact refers to the extent to which a risk event might affect USIBWC, 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 USIBWC purchase card program and assigned a likelihood rating of “low,” “medium,” or “high,” on the basis of the number of cardholders in the USIBWC 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: Generated by OIG based on the review of multiple sources, including industry standard principles for risk management.

The impact and likelihood ratings were combined to determine a single “factor” that was used in the final overall risk assessment for the USIBWC 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	Low	Medium	High
	Lower	Very Low	Low	Medium
	Likelihood Rating			Higher

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 USIBWC’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

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

USIBWC Purchase Card Program Risk Assessment Results

OIG determined that the risk of illegal, improper, or erroneous use in USIBWC’s purchase card program is “low.” On the basis of the results of this assessment, OIG is not recommending that an audit of USIBWC’s purchase card program be included in OIG’s FY 2019 through FY 2020 work plan.¹⁴ However, OIG encourages USIBWC officials to conduct prudent oversight of the purchase card program and ensure that internal controls intended to safeguard taxpayer funds are fully implemented and followed by USIBWC purchase card holders.

Criteria Ratings

According to documentation and information provided by USIBWC officials, OIG determined that USIBWC’s compliance with required internal controls for the purchase card program was generally moderate. Overall, 54 percent (31 of 57) of the internal controls assessed were in compliance with criteria,¹⁵ including 66 percent (19 of 29) compliance with internal controls specific to purchase cards. Due to the language used in the internal control criteria, OIG found that 42 percent (24 of 57) of internal controls tested were neither compliant nor noncompliant. Overall, OIG determined that the combination of compliant internal controls (54 percent) and neither compliant nor non-compliant controls (42 percent) resulted in a “low” rating for the internal control criterion.

The availability of training and the incorporation of training in USIBWC policy were rated as “medium” risk. The USIBWC “Government-wide Commercial Credit Card Manual”¹⁶ was updated on September 15, 2015, and includes specific guidance related to initial and refresher training for cardholders and approving officials, as well as record retention requirements and potential consequences for failure to meet established training requirements. However, OIG found that the

¹⁴ OIG issues a 2-year work plan.

¹⁵ See the Purpose, Scope, and Methodology section of this report for details of criteria used.

¹⁶ USIBWC SD.I.06057-M-1, “Government-wide Commercial Credit Card Manual” (September 15, 2015).

requirement for USIBWC personnel to complete General Services Administration purchase card training has not been incorporated into USIBWC policies and procedures.

OIG has not previously audited the USIBWC purchase card program, and USIBWC has not completed any internal audits of its purchase card program. Therefore, OIG assigned a “high” rating for the previous audits criterion.

INV forensic auditors have not identified any significant systemic issues related to USIBWC’s purchase card data, which resulted in a “low” rating for the INV observation criterion. The individual criteria ratings and overall combined rating are shown in Table 4.

Table 4. 2017 Risk Rating by Criteria

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

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

Impact and Likelihood Factor

USIBWC officials reported that 21 purchase card holders made purchases totaling approximately \$1.1 million in FY 2016. Because the dollar value of total purchases made was between \$1 million and \$10 million and the number of USIBWC purchase card holders was fewer than 250, the overall impact and likelihood factor resulted in a “low” rating, as shown in Table 5.

Table 5. Impact and Likelihood Factor

		Rating
Impact	\$1.1 million	Medium
Likelihood	21 cardholders	Low
<i>Impact and Likelihood Factor</i>		<i>Low</i>

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

RISK ASSESSMENT

OIG determined that the risk of illegal, improper, or erroneous use in the USIBWC purchase card program is “low.” On the basis of this assessment, OIG is not recommending that an audit of USIBWC’s purchase card program be included in OIG’s FY 2019 through FY 2020 work plan. Although an audit of the program is not planned, OIG encourages USIBWC officials to conduct

prudent oversight of the purchase card program and ensure that internal controls intended to safeguard taxpayer funds are fully implemented and followed by USIBWC purchase card holders.

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