



OIG

Office of Inspector General

U.S. Department of State • Broadcasting Board of Governors

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Office of Audits

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# Information Report: Department of State 2015 Purchase Card Risk Assessment

## INFORMATION REPORT

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## Summary of Review

To assess risk associated with the purchase card program at the Department of State (Department), OIG reviewed the Department's FY 2014 purchase card data and concluded that the risk of illegal, improper, or erroneous use in the Department purchase card program is "high." This conclusion is based on Department purchase card program size, internal controls, training, previous audits, OIG Office of Investigations (OIG/INV) observations, and violation reports.

Based on the results of this assessment, OIG is recommending an audit of the Department's purchase card program be included in OIG's FY 2017 – FY 2018 work plan. In addition to an audit of the Department's purchase card program being recommended during this reporting cycle, OIG also encourages the Department purchase card program manager to provide prudent oversight of the purchase card program and ensure internal controls intended to safeguard taxpayer funds are fully implemented and followed by Department purchase cardholders.

## BACKGROUND

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The Government Charge Card Abuse Prevention Act of 2012<sup>1</sup> 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,<sup>2</sup> 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.<sup>3</sup>

This 2015 risk assessment, which covered FY 2014 spending data, was the second such review conducted by OIG in regard to the Department's charge card programs. OIG concluded in the 2014 risk assessment<sup>4</sup> that the risk of illegal, improper, or erroneous use in the Department's travel card program was "very high" and the purchase card program was "medium." As a result of the 2014 risk assessment, an audit of the Department's travel card program was included in the OIG FY 2015 work plan.<sup>5</sup> This audit began in August 2015. Due to the ongoing audit of the travel card program, for this

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<sup>1</sup> Pub. L. No. 112-194, Oct. 5, 2012.

<sup>2</sup> OMB Memorandum M-13-21, "Implementation of the Government Charge Card Abuse Prevention Act of 2012," Sept. 6, 2013.

<sup>3</sup> OMB Circular A-123, "Management's Responsibility for Internal Control," App. B, "Improving the Management of Government Charge Card Programs," Jan. 15, 2009.

<sup>4</sup> OIG, *FY 2013 Risk Assessment of Travel and Purchase Card Programs at the Department of State* (AUD-CG-14-27, Jun. 2014).

<sup>5</sup> *OIG FY 2015 Work Plan*, Mar. 2015.

risk assessment, OIG evaluated only the Department's purchase card program. With respect to the Department's purchase card program, Department officials reported in FY 2014 that 1,804 purchase cardholders spent approximately \$104 million.

## SCOPE AND METHODOLOGY

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OIG's Office of Audits performed this risk assessment from March to April 2015 and August to September 2015. The objective of this assessment was to establish the risk of illegal, improper, and erroneous use of the Department'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 the Department's purchase card program size, internal controls, training, previous audits, OIG Office of Investigations (OIG/INV) observations, and violation reports. OIG conducted the risk assessment using industry standard principles for risk management.<sup>6</sup>

The risk assessment was not an audit and therefore 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 was audited, an audit team may identify such issues through independent testing of purchase card data. For example, a purchase card program may be found to be "very low risk" based on 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 where the OIG Office of Audits should focus its limited resources.

### Assessment Criteria

To conduct the risk assessment, OIG reviewed FY 2014 charge card data, documentation, and information provided by Department officials; however, OIG did not independently verify or validate the data obtained from agency officials. OIG assessed the purchase card program on five criteria—internal controls, training, previous audits, OIG/INV observations, and violation reports. OIG assigned a rating of "lower," "medium," and "higher" to identify the risk of each factor.

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<sup>6</sup> *Enterprise Risk Management – Integrated Framework Executive Summary*, Committee of Sponsoring Organizations of the Treadway Commission, Sept. 2004, and *Risk Assessment in Practice*, Deloitte & Touche LLP, Oct. 2012.

### Internal Controls

OIG used criteria identified in Public Law 112-194<sup>7</sup> and OMB Circular A-123<sup>8</sup> to assess internal controls for 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 A-123 requirement that agencies perform periodic reviews of spending and transaction limits to ensure appropriateness. Purchase card specific controls apply only to purchase card programs, such as the Public Law 112-194 requirement that requires agencies to have policies in place to ensure that each cardholder is assigned an approving official with authority to approve or disapprove transactions. OIG assigned a rating of "lower," "medium," or "higher" based on documented compliance with required internal controls.

### Training

OIG assigned the Department's purchase card program a rating of "lower," "medium," or "higher" based on the availability of training and incorporation of training in Department 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 purchase card program. OIG assigned a "higher" rating for a program that had not been audited within 10 years. OIG assigned a "lower" rating when a program had been recently audited and recommendations had been implemented. A "medium" rating was assigned 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 "lower," "medium," or "higher" for the Department's purchase card program based on input from OIG/INV forensic auditors. The Office of Audits met with OIG/INV to gain an understanding of its data mining<sup>9</sup> efforts being used to review Department purchase card transactions. OIG/INV provided information on the results of its analyses and interviews with Department officials responsible for the purchase card program.

### Violation Reports

Violation reports are required for purchase card programs that exceed \$10 million in spending annually.<sup>10</sup> OIG assigned a rating of "lower" if a report was provided and a lower number, in

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<sup>7</sup> Government Charge Card Abuse Prevention Act of 2012, Oct. 5, 2012.

<sup>8</sup> "Management's Responsibility for Internal Control," App. B, "Improving the Management of Government Charge Card Programs," Jan. 15, 2009.

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

<sup>10</sup> OMB M-13-21.

respect to total number of cardholders, of violations had been reported; and assigned a “higher” rating if a report was required but not provided or a larger number of violations had been reported.

### 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 used the dollars spent in the purchase card program to determine an impact rating of “lower,” “medium,” or “higher” and the number of cardholders in the program to determine a likelihood rating of “lower,” “medium,” or “higher.” The rating criteria are shown in Table 1.

**Table 1. Impact and Likelihood Ratings**

Rating	Impact	Likelihood
Lower	Less than \$1 million	Fewer than 250 cardholders
Medium	\$1 million to \$10 million	250 to 500 cardholders
Higher	More than \$10 million	More than 500 cardholders

Source: OIG developed based on 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 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**

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

Source: OIG developed based on 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 with the impact and likelihood factor to determine the final risk assessments for the Department’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	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 developed based on review of industry standard principles for risk management.

## RESULTS

### Department Purchase Card Program Risk Assessment Results

Based on the results of this assessment, OIG concludes that the risk of illegal, improper, or erroneous use in the Department’s purchase card program is “high.” Therefore, OIG is recommending that an audit of the Department’s purchase card program be included in OIG’s FY 2017 – FY 2018 work plan.<sup>11</sup> In addition to an audit of the Department’s purchase card program being recommended during this reporting cycle, OIG also encourages the Department purchase card program manager to provide prudent oversight of the purchase card program and ensure internal controls intended to safeguard taxpayer funds are fully implemented and followed among Department purchase cardholders.

### Criteria Ratings

According to documentation and information provided by Department officials, OIG determined that the purchase card program compliance with required internal controls was generally good—overall, 96 percent (55 of 57) of internal controls assessed were in compliance with criteria,<sup>12</sup> including 93 percent (27 of 29) compliance with purchase card-specific internal controls. OIG assigned the Department a rating of “lower” for the internal control criterion.

The availability of training and the incorporation of training in Department policy were rated “lower” because the purchase card office provided information regarding training that was updated in 2014, in coordination with the Foreign Service Institute, including specialized training for various participants in the program and required training for cardholders every 3 years.

OIG performed its most recent audit of the Department purchase card program from 2009 to 2010 (report issued in September 2010).<sup>13</sup> One recommendation from that report has remained in a “resolved” status since January 2011. In that recommendation, OIG recommended that the

<sup>11</sup> OIG issues a 2-year work plan. The *OIG FY 2016 – FY 2017 Work Plan* was issued in September 2015.

<sup>12</sup> See the Scope and Methodology section of this report for details of criteria used.

<sup>13</sup> OIG, *Audit of Department of State Purchase Card Domestic Use* (AUD/SI-10-31, Sept. 2010).

Department develop and implement a plan to ensure continuous monitoring of purchase card program participant compliance with internal controls, which was found to be deficient during the audit. Although the most recent OIG audit was performed within the last 10 years, the fact that a recommendation relating to compliance with internal controls has remained open for nearly 5 years increased the risk associated with this criterion, for which OIG assigned a rating of “medium.”

OIG/INV forensic auditors identified possible significant systemic issues with Department purchase card data, which resulted in a rating of “higher” for this criterion. OIG/INV identified potential issues with Department purchase cardholder use of convenience checks and purchases for items that may not be entered into the Department’s inventory system. These issues, which OIG/INV identified through data mining techniques, require additional scrutiny and independent review to determine whether Department purchase cardholders are following documented internal controls and appropriately safeguarding taxpayer funds.

During FY 2014, Department purchase card program officials reported a total of two purchase card violations. Because the report was filed as required and the number of violations was low (with respect to total number of cardholders), OIG assigned a rating of “lower” for this criterion. The individual criteria ratings and overall combined rating are shown in Table 4.

**Table 4. 2015 Risk Rating by Criteria**

Criteria	2015 Rating
Internal Controls	Lower
Training	Lower
Previous Audits	Medium
OIG/INV Observation	Higher
Violation Reports	Lower
<b>Combined</b>	<b>Medium</b>

**Source:** OIG generated based on its analysis of purchase card program information and documentation.

**Impact and Likelihood Factor**

Department officials reported that in FY 2014, the Department spent \$104 million, which was attributed to 1,804 cardholders. The impact and likelihood factor, shown in Table 5, raised the significance of the risk associated with the Department purchase card program.

**Table 5. Impact and Likelihood Factor**

		Rating
Impact	\$104 million	Higher
Likelihood	1,804 cardholders	Higher
<b>Factor</b>	<b>Very High</b>	

**Source:** OIG generated based on its analysis of purchase card program information and documentation.

## RISK ASSESSMENT

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OIG's final determination of the risk of illegal, improper, or erroneous use in the Department purchase card program is "high." Based on this assessment, OIG is recommending that an audit of the Department's purchase card program be included in the OIG FY 2017 – FY 2018 work plan. In addition to an audit of the Department's purchase card program being recommended during this reporting cycle, OIG encourages the Department purchase card program manager to provide prudent oversight of the purchase card program and ensure internal controls intended to safeguard taxpayer funds are fully implemented and followed among Department purchase cardholders.



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