



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

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MEMORANDUM

TO: A – Joyce A. Barr
CGFS – Christopher H. Flaggs, Acting

FROM: OIG/AUD – Norman P. Brown 

SUBJECT: Report on *FY 2013 Risk Assessment of Travel and Purchase Card Programs at the Department of State* (AUD-CG-14-27)

The Government Charge Card Abuse Prevention Act of 2012¹ (the Act) 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. The FY 2013 risk assessment was the first such review conducted of the travel and purchase card programs of the Department of State (Department). Travel and purchase card program size, internal controls, training, reported violations,² previous OIG audits, and OIG Office of Investigations (OIG/INV) forensic audit observations were considered in assessing the risks.

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 travel and 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 travel and purchase card programs were to be audited, a team may identify such issues through independent testing of travel and 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 followed 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.

¹ Pub. L. No. 112-194.

² Reported violations are applicable only to purchase card programs. Violations are required to be reported if the agency spends more than \$10 million annually.

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The results of the assessment show that the risk of illegal, improper, or erroneous use in the Department's travel card program is "very high," and as a result, an audit of the Department's travel card program has been recommended for inclusion in the OIG FY 2015 annual audit plan. The Department's purchase card program was rated "medium" and was not recommended for audit consideration in FY 2015.³

Scope and Methodology

OIG's Office of Audits performed this risk assessment from March to May 2014. The objective was to assess the risk of illegal, improper, and erroneous use of the purchase and travel card programs to determine the scope, frequency, and number of audits recommended to be conducted. The assessment was conducted using industry standard principles for risk management.⁴ The risk assessment was conducted by Melinda M. Perez, Director, Contracts and Grants Division, and Beverly J.C. O'Neill, Audit Manager, Contracts and Grants Division.

Assessment Criteria

To conduct the risk assessment, OIG reviewed FY 2013 charge card data, documentation, and information provided by Department officials; however, OIG did not independently verify or validate the data obtained. We assessed the travel card program based on four criteria and the purchase card program on five criteria. The criteria are described in the paragraphs that follow.

Internal Controls. Using the criteria identified in the Act and Office of Management and Budget (OMB) Circular No. A-123,⁵ internal controls were assessed for the travel card and purchase card programs. The travel card program was assessed for 28 general controls and 18 controls specific to travel card programs (46 total controls), and the purchase card program was assessed for the same 28 general controls and 29 controls specific to purchase card programs (57 total controls). A rating of "lower," "medium," or "higher" was assigned based on documented compliance with required controls.

Training. The travel card and purchase card programs were assigned a rating of "lower," "medium," or "higher" based on the availability of training and the incorporation of training in policy for each program.

Previous OIG Audits. Results of previous audits, as well as the statuses of implementation of recommendations, were reviewed for the travel card and purchase card programs. A program that had not been audited was assigned a "higher" rating, and the same rating was assigned for an audit that had been conducted more than 10 years ago. A "lower"

³ The results of the risk assessment do not preclude OIG from reviewing the Department's purchase card program during FY 2015 or at any other time.

⁴ "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.

⁵ OMB Circular No. A-123, "Management's Responsibility for Internal Control," App. B, "Improving the Management of Government Charge Card Programs," Jan. 15, 2009.

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rating was assigned 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 Forensic Audit Observation. Ratings of “lower,” “medium,” or “higher” were assigned to the travel card program and the purchase card program based on input from OIG/INV forensic auditors. We met with the OIG/INV forensic audit manager to discuss the progress in using data mining to review travel card and purchase card transactions for the Department. The information provided by OIG/INV included results of its analyses and interviews with the officials responsible for the travel and purchase card programs. Details related to each program are described in the Results of Risk Assessment section of this report.

Violation Reports. Violation reports were considered only for the purchase card program, as these reports are required when a purchase card program spends more than \$10 million per year.⁶ A rating of “lower” was assigned if a report was provided and a lower 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. We used the dollars spent in the travel card and purchase card programs to determine an impact rating of “lower,” “medium,” or “higher” and the number of cardholders in each 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 travel card and purchase card programs. We plotted the impact and likelihood ratings on a chart known as a “heat map,” which depicts the intersections of the lower, medium, and higher ratings, to determine a rating for the impact and likelihood factor. The heat map is shown in Table 2.

⁶ OMB M-13-21, “Implementation of the Government Charge Card Abuse Prevention Act of 2012,” Sept. 6, 2013.

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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: 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 travel and purchase card programs. Specifically, we used the heat map shown in Table 3 to arrive at the overall risk assessment ratings.

Table 3. Final Assessment Heat Map

		Final Assessment 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: OIG developed based on review of industry standard principles for risk management.

Results of Risk Assessment

The results of the assessment show that the risk of illegal, improper, or erroneous use in the Department’s travel card program is “very high.” As a result, an audit of the Department’s travel card program has been recommended for inclusion in the OIG FY 2015 annual audit plan. The Department’s purchase card program was rated “medium” and was not recommended for OIG audit consideration for FY 2015;⁷ however, OIG suggests that both travel card and purchase card program managers take appropriate actions to ensure and improve oversight of the programs. The individual program results are described in the sections that follow.

Department of State Travel Card

Criteria Ratings. According to documentation and information provided by the Department’s travel card office, we determined that travel card program compliance with required internal controls was generally good—overall 89 percent were in compliance (41 of 46 controls), to include 78 percent in compliance (14 of 18 controls) with travel card-specific

⁷ The results of the risk assessment do not preclude OIG from reviewing the Department’s purchase card program during FY 2015 or at any other time.

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controls, resulting in a rating of “lower” for this criterion. The availability of training and incorporation of training in policy were rated “medium” because the travel card management plan was not clear as to how refresher training was provided and/or enforced for cardholders and other program participants, which is potentially a significant weakness in ensuring that cardholders and other program participants understand the rules and regulations regarding travel card use. The last audit of the travel card program was conducted in 2002 (reported in March 2003),⁸ and although all of the recommendations have since been implemented, the audit identified weaknesses in internal controls and is now more than 10 years old. This resulted in a rating of “higher” for the prior OIG coverage criterion. Finally, the input from OIG/INV forensic auditors and their review of data for the travel card program resulted in the rating of “higher.” Consequently, these factors significantly influenced the combined rating of “high” for the travel card program. OIG/INV identified multiple areas that warrant closer scrutiny, such as payments due from individual cardholders totaling approximately \$1 million that were 60 days delinquent (when data was obtained); disciplinary procedures that were implemented inconsistently across bureaus (according to interviews with the travel card program manager); split disbursements⁹ that were not being implemented; and the effectiveness, as well as the costs, of managing the centrally billed accounts (CBA) that may not justify their high rate of use by the Department. The individual criteria ratings and overall combined rating are shown in Table 4.

Table 4. Criteria Ratings

Criteria	Rating
Internal Controls	Lower
Training	Medium
Prior OIG Audits	Higher
OIG/INV Input	Higher
<i>Combined</i>	<i>High</i>

Source: OIG generated based on analysis of information and documentation as described in the Scope and Methodology section of this report.

Impact and Likelihood Factor. The Department’s travel card office reported that in FY 2013, the Department spent a total of \$237 million (\$213 million in CBA travel cards and \$24 million on individually billed accounts (IBA)), which was attributed to 9,081 total cardholders (832 CBAs and 8,249 IBAs). The impact and likelihood factor, shown in Table 5, raises the significance of the risk associated with the Department’s travel card program.

Table 5. Impact and Likelihood Factor

		Rating
Impact	\$237 million	Higher
Likelihood	9,081 Cardholders	Higher
<i>Factor</i>	<i>Very High</i>	

Source: OIG generated based on analysis of information and documentation as described in the Scope and Methodology section of this report.

⁸ *Domestic Travel Card Program* (AUD/FM-03-33, March 2003).

⁹ Split disbursements allow for cardholders to have part of their travel vouchers paid directly to the credit card company. Split disbursements are required by OMB Circular A-123, App. B.

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Final Risk Assessment and Recommendation. The final determination of risk of illegal, improper, or erroneous use in the Department travel card program was “very high.” As a result, an audit of the Department’s travel card program has been recommended for inclusion in the OIG FY 2015 annual audit plan. OIG also suggests that the travel card program manager take appropriate actions to ensure and improve oversight of the travel card program.

Department of State Purchase Card

Criteria Ratings. According to documentation and information provided by the Department’s purchase card office, OIG determined that program compliance with required internal controls was generally good—overall 95 percent were in compliance (54 of 57 controls), to include 93 percent in compliance (27 of 29 controls) with purchase card-specific controls, resulting in a rating of “lower” for this criterion. The availability of training and the incorporation of training in Department policy for the purchase card program were rated “lower” because the purchase card office, in coordination with the Foreign Service Institute, had developed specialized training for various participants in the program and it requires training for applicable cardholders every 3 years. The last audit of the purchase card program was conducted in 2009-2010 (reported in September 2010),¹⁰ and one recommendation remained in the “resolved” status. However, the Department provided documentation of internal reviews that were conducted that mitigated the risk and resulted in a rating of “lower” for the prior audit criterion. The input from OIG/INV forensic auditors and their review of data for the purchase card program included questionable purchases and concerns that controls at overseas posts might not be followed, which resulted in a rating of “higher” for this criterion. Finally, the Department met the criteria and reported on violations as required, resulting in a “lower” rating. The report included information from OIG on eight violations in various steps in the resolution process, including adverse personnel actions and pending hearings. The individual criteria ratings and overall combined rating are shown in Table 6.

Table 6. Criteria Ratings

Criteria	Rating
Internal Controls	Lower
Training	Lower
Prior OIG Audits	Lower
OIG/INV Input	Higher
Violation Report	Lower
Combined	Low

Source: OIG generated based on analysis of information and documentation as described in the Scope and Methodology section of this report.

Impact and Likelihood Factor. The Department’s purchase card office reported that in FY 2013, the Department spent \$98.5 million, which was attributed to 1,563 cardholders. The impact and likelihood factor, shown in Table 7, raised the significance of the risk associated with the Department’s purchase card program to “very high.”

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

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Table 7. Impact and Likelihood Factor

		Rating
Impact	\$98.5 million	Higher
Likelihood	1,563 cardholders	Higher
Factor	Very High	

Source: OIG generated based on analysis of information and documentation as described in the Scope and Methodology section of this report.

Final Risk Assessment. The final determination of risk of illegal, improper, or erroneous use in the Department’s purchase card program was “medium.” An audit of the Department’s purchase card program was not recommended for inclusion in the OIG FY 2015 annual audit plan;¹¹ however, OIG suggests that the purchase card program manager take appropriate actions to ensure and improve oversight of the program. The OIG FY 2014 risk assessment will carefully consider the progress of OIG/INV forensic auditors’ data mining efforts and the status of implementation of the outstanding OIG audit recommendation.

This report was provided for informational purposes, and a response is not required. OIG appreciates the cooperation and assistance provided by your staff during this risk assessment. If you have any questions please contact me, Assistant Inspector General for Audits, by email at [Redacted] (b) (6) @state.gov or Melinda M. Perez, Division Director, by email at [Redacted] (b) (6) @state.gov.

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¹¹ The results of the risk assessment do not preclude OIG from reviewing the Department’s purchase card program during FY 2015 or at any other time.