



# OIG

Office of Inspector General

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

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AUD-FM-16-21

Office of Audits

December 2015

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## Information Report: International Boundary and Water Commission, United States and Mexico, U.S. Section, 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 International Boundary and Water Commission, United States and Mexico, U.S. Section (USIBWC), OIG reviewed USIBWC's FY 2014 purchase card data and concluded that the risk of illegal, improper, or erroneous use in the USIBWC purchase card program was "low." This conclusion is based on USIBWC's purchase card program size, internal controls, training, previous audits, and OIG Office of Investigations (OIG/INV) observations.

Based on the results of this assessment, OIG is not recommending an audit of USIBWC's purchase card program be included in OIG's FY 2017 – FY 2018 work plan. However, OIG encourages USIBWC officials to update the purchase card policy and ensure internal controls intended to safeguard taxpayer funds are documented, fully implemented, and followed by USIBWC 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,<sup>3</sup> 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>4</sup>

This 2015 risk assessment, which covered FY 2014 spending data, was the second such review conducted by OIG in regard to the USIBWC charge card programs. OIG concluded in the 2014 risk assessment<sup>5</sup> that the risk of illegal, improper, or erroneous use in the USIBWC travel card program was "medium" and in the purchase card program was "low." For 2015, only USIBWC's purchase card program was evaluated because the travel card program had less than \$10 million in spending, which is less than the threshold requiring an assessment. With respect to USIBWC's purchase card

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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 M-13-21 states that only travel card programs with prior year spending of more than \$10 million are required to be reviewed annually.

<sup>4</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>5</sup> OIG, *FY 2013 Risk Assessment of Travel and Purchase Card Programs at the International Boundary and Water Commission (AUD-CG-14-29)*, Jun. 2014).

program, USIBWC officials reported in FY 2014 that 23 purchase card holders spent approximately \$1.4 million.<sup>6</sup>

## 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 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 OIG Office of Investigations (OIG/INV) observations. OIG conducted the risk assessment using industry standard principles for risk management.<sup>7</sup>

This 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. This risk assessment was designed to identify the programs where the OIG Office of Audits should focus its limited resources.

### Assessment Criteria

To conduct this risk assessment, OIG reviewed FY 2014 charge card data, documentation, and information provided by USIBWC officials; however, OIG did not independently verify or validate the data obtained from agency officials. OIG assessed the purchase card program on four criteria<sup>8</sup>—internal controls, training, previous audits, and OIG/INV observations. OIG assigned a rating of "lower," "medium," and "higher," to identify the risk of each factor.

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<sup>6</sup> OMB M-13-21 states that purchase card programs, regardless of size, are required to be reviewed annually.

<sup>7</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.

<sup>8</sup> 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 its risk assessment of USIBWC's purchase card program.

### Internal Controls

OIG used criteria identified in Public Law 112-194<sup>9</sup> and OMB Circular A-123<sup>10</sup> to assess internal controls for 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. 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 USIBWC's purchase card program a rating of "lower," "medium," or "higher" based on the availability of training and USIBWC's 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 USIBWC'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 USIBWC'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>11</sup> efforts being used to review USIBWC purchase card transactions. OIG/INV provided information on the results of its analyses and interviews with USIBWC officials responsible for the purchase card program.

### 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 used the dollars spent in the purchase card program to determine an impact rating of "lower," "medium," or "higher" and the number of

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<sup>9</sup> Government Charge Card Abuse Prevention Act of 2012, Oct. 5, 2012.

<sup>10</sup> "Management's Responsibility for Internal Control," App. B, "Improving the Management of Government Charge Card Programs," Jan. 15, 2009.

<sup>11</sup> Data mining is the practice of searching through large amounts of computerized data to find useful patterns or trends.

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		
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 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		
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

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### USIBWC 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 USIBWC's purchase card program is "low." Therefore, OIG is not recommending that an audit of USIBWC's purchase card program be included in OIG's FY 2017 – FY 2018 work plan.<sup>12</sup> Although an audit of the program is not planned, OIG encourages USIBWC officials to update the purchase card policy and ensure internal controls intended to safeguard taxpayer funds are documented, fully implemented, and followed by USIBWC purchase cardholders.

### Criteria Ratings

According to documentation and information provided by USIBWC officials, OIG determined that the purchase card program compliance with required internal controls was generally moderate—overall, 54 percent (31 of 57) of internal controls assessed were in compliance with criteria,<sup>13</sup> including 59 percent (17 of 29) compliance with purchase card-specific internal controls. 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 non-compliant. Overall, OIG determined that the combination of compliant internal controls—54 percent—and neither compliant nor non-compliant controls—42 percent—resulting in a rating of "lower" for the internal control criterion.

The availability of training and the incorporation of training in USIBWC policy were rated "medium" because USIBWC officials had not updated its purchase card policy since 2001, and, as noted in the 2014 risk assessment, the USIBWC guidance that was provided in 2001 included little information regarding required purchase card training. During the 2014 risk assessment, USIBWC officials stated that the purchase card policy was in the process of being updated. At the time of this 2015 risk assessment, an updated and approved policy had not been approved and disseminated to USIBWC purchase cardholders. However, USIBWC officials did provide OIG information regarding purchase card training that was developed and provided to cardholders in August 2014.

OIG has not audited the USIBWC purchase card program. USIBWC conducted an internal audit in FY 2014 that identified four deficiencies related to purchase card policies and procedures; however, USIBWC did not provide information on resolution or implementation results. Therefore, OIG assigned a "higher" rating for the previous audits criterion.

OIG/INV forensic auditors have not identified any significant systemic issues with USIBWC purchase card data, which resulted in a "lower" rating for the OIG/INV observation criterion. The individual criteria ratings and overall combined rating are shown in Table 4.

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<sup>12</sup> OIG issues a 2-year work plan. The *OIG FY 2016 – FY 2017 Work Plan* was issued in September 2015.

<sup>13</sup> See the Scope and Methodology section of this report for details of criteria used.

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

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

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

### Impact and Likelihood Factor

USIBWC officials reported that in FY 2014, USIBWC spent \$1.4 million, which was attributed to 23 cardholders. The impact and likelihood factor, shown in Table 5, reduced the risk associated with the USIBWC purchase card program.

**Table 5. Impact and Likelihood Factor**

		Rating
Impact	\$1.4 million	Medium
Likelihood	23 cardholders	Lower
<b><i>Factor</i></b>	<b><i>Low</i></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 USIBWC purchase card program is "low." Based on this risk assessment, OIG is not recommending that an audit of USIBWC's purchase card program be included in the OIG FY 2017 – FY 2018 work plan; however, OIG encourages USIBWC officials to update the purchase card policy and ensure internal controls intended to safeguard taxpayer funds are documented, fully implemented, and followed by USIBWC purchase cardholders.

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