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Information Report: Broadcasting Board of Governors 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 Broadcasting Board of Governors (BBG), OIG reviewed BBG's FY 2014 purchase card data and concluded that the risk of illegal, improper, or erroneous use in the BBG purchase card program is "very low." This conclusion is based on BBG'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 BBG's purchase card program be included in OIG's FY 2017 – FY 2018 work plan. However, OIG encourages the BBG purchase card program manager to continue prudent oversight of the purchase card program and ensure internal controls intended to safeguard taxpayer funds are fully implemented and followed among BBG purchase cardholders.

BACKGROUND

The Government Charge Card Abuse Prevention Act of 2012¹ 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,² which outlined OIG risk assessment requirements,³ 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

This 2015 risk assessment, which covered FY 2014 spending data, was the second such review conducted of BBG charge card programs. OIG concluded in the 2014 risk assessment⁵ that the risk of illegal, improper, or erroneous use in the BBG travel card program was "medium" and in the purchase card program was "very low." For 2015, only BBG's purchase card program was evaluated because the travel card program at BBG had less than \$10 million in spending, which is less than the threshold requiring an assessment. With respect to BBG's purchase card program, BBG officials reported in FY 2014 that 83 purchase card holders spent approximately \$4.5 million.⁶

¹ Pub. L. No. 112-194, Oct. 5, 2012.

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

³ 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.

⁴ OMB Circular A-123, "Management's Responsibility for Internal Control," App. B, "Improving the Management of Government Charge Card Programs," Jan. 15, 2009.

⁵ OIG, *FY 2013 Risk Assessment of Travel and Purchase Card Programs at the Broadcasting Board of Governors* (AUD-CG-IB-14-28, Jun. 2014).

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

SCOPE AND METHODOLOGY

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 BBG'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 BBG'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.⁷

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 BBG officials; however, OIG did not independently verify or validate the data obtained from agency officials. OIG assessed the purchase card program on four criteria⁸—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.

Internal Controls

OIG used criteria identified in Public Law 112-194⁹ and OMB Circular A-123¹⁰ to assess internal controls for BBG'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

⁷ *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.

⁸ Agencies that spend more than \$10 million annually using purchase cards are required to submit annual "violation reports." Because BBG 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 BBG's purchase card program.

⁹ Government Charge Card Abuse Prevention Act of 2012, Oct. 5, 2012.

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

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 BBG's purchase card program a rating of "lower," "medium," or "higher" based on the availability of training and BBG'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 BBG'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 BBG'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 mining¹¹ efforts being used to review BBG purchase card transactions. OIG/INV provided information on the results of its analyses and interviews with BBG officials responsible for the purchase card program.

Impact and Likelihood

Impact refers to the extent to which a risk event might affect BBG 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.

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

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 BBG’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

BBG 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 BBG's purchase card program is "very low." Therefore, OIG is not recommending that an audit of BBG's purchase card program be included in OIG's FY 2017 – FY 2018 work plan.¹² Although an audit of the BBG's purchase card program is not recommended during this reporting cycle, OIG encourages the BBG purchase card program manager to continue prudent oversight of the purchase card program and ensure internal controls intended to safeguard taxpayer funds are fully implemented and followed among BBG purchase cardholders.

Criteria Ratings

According to documentation and information provided by BBG officials, OIG determined that the purchase card program compliance with required internal controls was generally good—overall, 95 percent (54 of 57) of internal controls assessed were in compliance with criteria,¹³ including 90 percent (26 of 29) compliance with purchase card-specific internal controls. OIG assigned BBG a rating of "lower" for the internal control criterion.

The availability of training and the incorporation of training in BBG policy were rated "lower" because the purchase card office provided detailed documentation and policies regarding the required training for program participants.

OIG performed its most recent audit of the BBG purchase card program in 2005 (report issued in August 2006),¹⁴ and all of the recommendations from that report are closed. However, since the audit was 10 years old and BBG had not completed any internal reviews of its purchase card program to mitigate the rating, OIG assigned a "medium" rating for the previous audits criterion.

OIG/INV forensic auditors have not identified any significant systemic issues with BBG 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.

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

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

¹⁴ OIG, *Review of the Broadcasting Board of Governors Purchase Card Program* (AUD/IB-06-15, Aug. 2006).

Table 4. 2015 Risk Rating by Criteria

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

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

Impact and Likelihood Factor

The BBG officials reported that in FY 2014, BBG spent \$4.5 million, which was attributed to 83 cardholders. The impact and likelihood factor, shown in Table 5, reduced the risk associated with the BBG purchase card program.

Table 5. Impact and Likelihood Factor

		Rating
Impact	\$4.5 million	Medium
Likelihood	83 cardholders	Lower
<i>Factor</i>		<i>Low</i>

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

RISK ASSESSMENT

OIG's final determination of the risk of illegal, improper, or erroneous use in the BBG purchase card program is "very low." Based on this assessment, OIG is not recommending that an audit of BBG's purchase card program be included in the OIG FY 2017 – FY 2018 work plan; however, OIG encourages the BBG purchase card program manager to continue prudent oversight of the purchase card program and ensure internal controls intended to safeguard taxpayer funds are fully implemented and followed among BBG purchase cardholders.

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