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Information Report: Department of State 2021 Charge Card Risk Assessment

INFORMATION REPORT

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Summary of Review

The Government Charge Card Abuse Prevention Act of 2012,¹ as implemented by Office of Management and Budget (OMB) Circular A-123, Appendix B,² requires the Office of Inspector General (OIG) to conduct annual risk assessments of agency purchase and travel card programs. The assessments are conducted to 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.³

To assess risk associated with the Department of State's (Department) purchase card program, OIG reviewed the Department's FY 2020 purchase card data and concluded that the risk of illegal, improper, or erroneous use in the Department's purchase card program was "medium." OIG based its conclusion on the purchase card program's size, internal controls, training, previous audits, violation reports, and OIG Office of Investigations (INV) observations.

Although OIG concluded that risk to the purchase card program was "medium," it is important to note that OIG recently audited the Department's purchase card program and issued a report in March 2019.⁴ In addition, the five recommendations offered in that report have been implemented and closed. Therefore, OIG is not recommending that an audit of the Department's purchase card program be included in its FY 2023–FY 2024 work plan. However, OIG encourages the Department's purchase card manager to continue prudent oversight of the purchase card program to ensure that internal controls intended to safeguard taxpayer funds are fully implemented and followed by Department purchase card holders.

OBJECTIVE

OIG conducted this risk assessment to establish the risk of illegal, improper, and erroneous use of the Department's purchase card program and to recommend the scope, frequency, and number of audits that should be conducted on the basis of the aforementioned risk assessment.

BACKGROUND

The Government Charge Card Abuse Prevention Act of 2012, as implemented by OMB Circular A-123, Appendix B, requires OIG to conduct annual periodic risk assessments of agency purchase and travel card programs. The assessments are conducted to identify and analyze risks of illegal, improper, or erroneous purchases for use in determining the scope, frequency,

¹ Public Law 112-194 (October 5, 2012).

² OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control" (July 15, 2016), Appendix B, "A Risk Management Framework for Government Charge Card Program" (August 27, 2019).

³ Public Law 112-194 at Sec. 2 § 1909(d)(1) and Sec. 3 (h)(3).

⁴ OIG, *Audit of Department of State Purchase Card Program* (AUD-CGI-19-24, March 2019).

and number of periodic audits of these programs.⁵ In addition, OMB Circular A-123, Appendix B, outlines OIG risk assessment requirements, as well as additional required internal controls for agency charge card programs. Furthermore, OMB issued guidance⁶ that prescribes policies and procedures regarding how agencies should maintain internal controls to reduce the risk of fraud, waste, and error in Government charge card programs.

The 2021 risk assessment of the Department's purchase card program, which covers FY 2020 spending data, is the seventh risk assessment of the Department's purchase card program conducted by OIG. Department officials reported that in FY 2020, 1,718 purchase card holders made purchases totaling approximately \$109 million.

The purpose of this information report is to convey the results of this risk assessment and promote the timely implementation of management practices that will result in the sound stewardship of U.S. taxpayer dollars. See Appendix A for additional details on the purpose, scope, and methodology of this risk assessment.

RESULTS

Criteria Ratings

On the basis of documentation and information provided by Department officials, OIG determined that the Department generally complied with required internal controls for the purchase card program. Overall, 96 percent (75 of 78) of the internal controls assessed complied with established criteria,⁷ including 98 percent (42 of 43) compliance with internal controls specific to purchase cards. Because most internal controls assessed complied with established criteria, OIG assigned the Department a rating of "low" for the internal control criterion.

The availability of training and the incorporation of training in Department policy was rated "low" risk because Department officials provided detailed documentation regarding available training. In addition, Department officials provided policies requiring purchase card holders and approving officials to complete appropriate training related to purchase charge cards.

Regarding the previous audit's criterion, OIG issued a report of its audit of the Department's purchase card program in March 2019.⁸ That report included five recommendations. All five recommendations have been implemented and closed. Additionally, in FY 2019, the Department's program management certified 191 annual purchase card reviews for bureaus and posts. Therefore, OIG determined that the risk associated with the prior audit work criterion is "low."

⁵ Public Law 112-194 at Sec. 2 § 1909(d)(1) and Sec. 3 (h)(3).

⁶ OMB Circular A-123, Appendix B.

⁷ See Appendix A of this report for details on the criteria used.

⁸ OIG, AUD-CGI-19-24.

During OIG’s audit of the Department’s purchase card program, OIG found that the Department had not submitted to OMB complete, timely, semi-annual “Joint Purchase and Integrated Card Violations Reports,” between April 2014 and March 2017.⁹ When OIG brought this matter to the attention of Department officials, the Department took action to provide accurate and timely reports. In addition, for FY 2020, the Department’s report identified two violations.¹⁰ For the purpose of this risk assessment and because neither reported violation was considered abuse or fraud, OIG considers the risk associated with the violations of the report’s criterion “low.”

In addition, INV forensic auditors stated that INV did not have any current open investigations related to the Department’s purchase card program. However, they noted that the program is high risk partly because of the use of convenience checks, possible split purchases, and unrestricted merchant category codes. Therefore, OIG considers the risk associated with the INV consultation criterion to be “high.” The individual criterion ratings and overall combined rating are shown in Table 1.

Table 1: 2020 Risk Rating by Criterion

Criterion	2020 Rating
Internal Controls	Low
Training	Low
Previous Audits	Low
Violation Reports	Low
INV Observation	High
Combined	Low*

* Individual criterion ratings were assigned numeric values, and the total was averaged to identify an overall rating. Criteria rated as “low” risk were assigned a numeric value of 1; criteria rated as “medium” risk would have been assigned a numeric value of 2; and criteria rated as “high” risk were assigned a numeric value of 3.

Source: Generated by OIG based on its analysis of the Department’s FY 2020 purchase card program information and documentation.

Impact and Likelihood Factor

Department officials reported that 1,718 Department purchase cardholders made purchases totaling approximately \$109 million in FY 2020. Because the dollar amount of the total purchases made was more than \$10 million and the number of Department purchase cardholders was more than 500, the overall impact and likelihood factor resulted in a “very high” rating, as shown in Table 2.¹¹

⁹ OIG, *Management Assistance Report: Process Used by the Department of State To Prepare the Joint Purchase and Integrated Card Violation Report Requires Improvement* (AUD-CGI-18-26, February 2018).

¹⁰ The violations identified involved loss, waste, or misuse that resulted in temporary suspension and training. Neither violation was considered abuse or fraud.

¹¹ Refer to Appendix A, Tables A.1 and A.2, for OIG’s methodology in determining the Impact and Likelihood Factor.

Table 2: Impact and Likelihood Factor

		2020 Rating
Impact	\$109 million	High
Likelihood	1,718 cardholders	High
Impact and Likelihood Factor		Very High

Source: Generated by OIG based on its analysis of the Department’s purchase card program information and documentation related to total Department purchases in FY 2020 and the number of purchase card holders.

Risk Assessment

Overall, OIG determined that the risk of illegal, improper, or erroneous use in the Department purchase card program is “medium.” Although OIG concluded that risk to the purchase card program is “medium,” OIG recently audited the Department’s purchase card program and issued a report in March 2019.¹² In addition, the five recommendations offered in that report have been implemented and closed. Therefore, OIG is not recommending that an audit of the Department’s purchase card program be included in its FY 2023–FY 2024 work plan. However, OIG encourages the Department’s purchase card manager to continue prudent oversight of the purchase card program and ensure that internal controls intended to safeguard taxpayer funds are fully implemented and followed by Department purchase card holders.

¹² OIG, AUD-CGI-19-24.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Office of Inspector General (OIG) performed this risk assessment from July to August 2021. The objective of this assessment was to establish the risk of illegal, improper, and erroneous use of the Department of State's (Department) purchase card program and recommend the scope, frequency, and number of audits that should be conducted on the basis of the aforementioned risk assessment. To perform this risk assessment, OIG considered the Department's purchase card program size, internal controls, training, previous audits, violation reports, and OIG Office of Investigations' (INV) observations. OIG conducted this risk assessment using industry standard principles for risk management.¹

This risk assessment was not an audit and was not conducted in accordance with generally accepted government auditing standards. The results of this 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 the program's 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 internal 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 on which the OIG Office of Audits should focus its limited resources.

Assessment Criteria

To conduct this risk assessment, OIG reviewed FY 2020 purchase card data and documentation, as well as information provided by Department officials.² OIG assessed the purchase card program using five criteria: internal controls, training, previous audits, violation reports, and INV observations. OIG assigned a rating of "low," "medium," or "high" to identify the risk associated with each factor.³

¹ 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).

² In performing this risk assessment, OIG used purchase card data reported by the Department without independently verifying the data for accuracy and completeness. The Department purchase card program manager reported that purchase cardholders made purchases totaling approximately \$109 million in FY 2020.

³ OIG team members used professional judgment to determine compliance with requirements in assessing risk ratings for each factor.

Internal Controls

OIG used criteria identified in the Government Charge Card Abuse Prevention Act of 2012⁴ and Office of Management and Budget (OMB) Circular A-123, Appendix B,⁵ to assess internal controls associated with the Department's purchase card program. OIG assessed the purchase card program for 35 general internal controls and 43 internal controls specific to purchase card programs (a total of 78 internal controls assessed).⁶ For example, a general control would apply to both purchase card and travel card programs, such as the OMB Circular A-123 requirement that agencies perform periodic reviews of spending and transaction limits to ensure appropriateness.⁷ Purchase card-specific controls apply only to purchase card programs, such as the requirement that each purchase cardholder and individual issued a convenience check is assigned an approving official other than the cardholder with the authority to approve or disapprove transactions.⁸ OIG assigned a rating of "low," "medium," or "high" on the basis of documented compliance with required internal controls. Specifically, OIG assigned a "low" rating to programs with a high percentage (above 75 percent) of compliant internal controls. OIG assigned a "medium" rating to programs with neither a high percentage of compliant internal controls nor a high percentage of noncompliant internal controls. OIG assigned a "high" rating to programs with a high percentage (above 50 percent) of noncompliant internal controls.

Training

OIG assigned the Department's purchase card program a rating of "low," "medium," or "high" based on the availability of training and incorporation of training in its policy for the program. Specifically, OIG assigned a "low" rating when training was available and incorporated into policies. OIG assigned a "medium" rating when training was available but not incorporated into policies, or when training was not available but was incorporated into policies. OIG assigned a "high" rating when training was not available and was not incorporated into the organization's policies.

Previous Audits

To assess the Department's purchase card program, OIG reviewed the results of previous audits, as well as the implementation status of associated recommendations. OIG assigned a "low" rating when a program had been audited in the last 10 years and recommendations had

⁴ Public Law 112-194, at Sec. 2 § 1909(a)(1)-(13), § 1909(c)(1) and (3)(A) and (B), and § 1909 (d)(1)-(3).

⁵ OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control" (July 15, 2016), Appendix B, "A Risk Management Framework for Government Charge Card Programs" (August 27, 2019), and Attachment 5, "Best Practices in Managing Government Charge Card Programs."

⁶ The requirements for the internal controls varied. Some were required to be included in the organization's purchase card program guidance; others were not required to be documented but were still required. Because OIG reviewed only documented controls, it could not determine whether undocumented controls were compliant or noncompliant.

⁷ OMB Circular A-123, Appendix B, Attachment 5.

⁸ Public Law 112-194, at Sec. 2 § 1909(a)(2).

been implemented. OIG assigned a “medium” rating for programs that had been audited in the last 10 years but had not fully implemented recommendations. OIG assigned a “high” rating for programs that had not been audited within the last 10 years. The ratings were mitigated if the program provided documentation of meaningful internal reviews (conducted by the agency).

Violation Reports

Violation reports are required for purchase card programs that exceed \$10 million in spending annually.⁹ OIG assigned a “low” rating when a report was provided, and a low number of violations had been reported in relation to the total number of purchase card holders. OIG assigned a “medium” rating when a report was provided, and a medium number of violations had been reported in relation to the total number of purchase card holders. OIG assigned a “high” rating when a report was required but not provided, or a large number of violations had been reported in relation to the total number of purchase card holders.

INV Observations

On the basis of guidance from INV forensic auditors, OIG assigned the Department’s purchase card program ratings of “low,” “medium,” or “high.” Office of Audits personnel met with INV personnel to gain an understanding of the data mining¹⁰ efforts being used to review Department purchase card transactions. INV provided information on the results of its data mining analyses and interviews with Department officials responsible for the purchase card program.

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 assigned an impact rating of “low,” “medium,” or “high” on the basis of the dollars spent in the Department’s purchase card program and assigned a likelihood rating of “low,” “medium,” or “high” on the basis of the number of cardholders in the Department’s purchase card program. The rating criteria are shown in Table A.1.

Table A.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 from the review of multiple sources, including industry standard principles for risk management.

⁹ Public Law 112-194, Sec. 2(3)(A)(B).

¹⁰ Data mining is the practice of searching through large amounts of computerized data to find useful patterns or trends.

Using the information obtained in Table A.1, 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 A.2. OIG used this single impact and likelihood combined factor in the final overall risk assessment (Table A.3) for the Department’s purchase card program.

Table A.2: Impact and Likelihood Factor Heat Map Table

		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: Generated by OIG from a review of industry standard principles for risk management.

Final Risk Assessment

OIG plotted the combined individual criteria rating in Table A.1 with the combined impact and likelihood factor in Table A.2 to determine the final risk assessment rating for the Department’s purchase card program. Specifically, OIG used the final risk assessment heat map shown in Table A.3 to determine the overall risk assessment rating.

Table A.3: Final Risk Assessment Heat Map Table

		Final 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: Generated by OIG from a review of industry standard principles for risk management.

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