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INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
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MEMORANDUM FOR BEN SCAGGS,
EXECUTIVE DIRECTOR

FROM: Deborah L. Harker /s/
Assistant Inspector General for Audit

SUBJECT: Risk Assessment of the Gulf Coast Ecosystem
Restoration Council's Charge Card and Convenience
Check Program

This memorandum presents the results of our risk assessment of the Gulf Coast Ecosystem Restoration Council's (Council) charge card (collectively, purchase cards, travel cards, and centrally billed accounts)¹ and convenience check program. The objective of our assessment was to identify and analyze the risk of illegal, improper, or erroneous purchases and payments in order to determine the scope, frequency, and number of periodic audits of charge card and/or convenience check transactions.

The scope of this risk assessment covered Council's charge card and convenience check program for third quarter (Q3) fiscal year (FY) 2015 through second quarter (Q2) FY 2018. Among other things, we reviewed applicable laws, regulations, and Council's Charge Card Management Plan(s) (CCMP), as well as, policies and procedures and evidence of training on charge card and convenience check use. As part of our risk assessment, we analyzed all transactions for the period within scope that comprised (1) 455 purchase card transactions totaling \$202,675, (2) 2,290 travel card transactions totaling \$348,988, and (3) 5 convenience checks totaling \$3,062. We analyzed these transactions to identify anomalies and/or potential prohibited purchases that would pose a risk of potential illegal, improper, or erroneous purchases and payments (i.e. duplicate transactions, personal use). See below for more detail of our objective, scope, and methodology.

In brief, we assessed the overall risk of illegal, improper, or erroneous purchases and payments in Council's charge card program as low and convenience check

¹ Centrally billed accounts are part of Council's purchase cards and travel cards. Council did not have integrated cards, which are combined purchase and travel cards in a single account.

program as very low. As such, we determined that an audit of Council's charge card and convenience check program is not necessary at this time.

Background

Council uses charge cards to procure goods and services and is responsible for maintaining internal control that reduces the risk of fraud, waste, and misuse associated with charge cards. The *Government Charge Card Abuse Prevention Act of 2012*² (Charge Card Act) requires all executive branch agencies to establish and maintain safeguards and internal control over charge cards and convenience checks. The Charge Card Act also requires Inspectors General to conduct periodic risk assessments of agency charge card and/or convenience check programs to identify and analyze the risks of illegal, improper, or erroneous purchases and payments to determine the scope, frequency, and number of periodic audits of the programs.

Office of Management and Budget's (OMB) M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012* (September 6, 2013), requires, among other things, that Inspectors General risk assessments be completed on an annual basis. OMB's Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Appendix B, "Improving the Management of Government Charge Card Programs" (July 15, 2016), prescribes policies and procedures for agencies to maintain internal control to reduce the risk of fraud, waste, and error in government charge card programs.

Council's CCMP outlines the policies and procedures that are critical to managing its charge card and convenience check program. Council has an Interagency Agreement with the Department of the Treasury's Bureau of the Fiscal Service Administrative Resource Center (ARC) to process charge card payments; provide cardholder training; and perform post-payment reviews.

Council's Charge Card and Convenience Check Program

From Q3 FY 2015 through Q2 FY 2018, Council had between 1 and 5 active purchase card accounts with 455 reported transactions totaling \$202,675. There were between 9 and 18 travel card accounts with 2,290 reported transactions totaling \$348,988. In addition, 2 employees had the authority to use convenience checks and 5 checks were issued totaling \$3,062. **Table 1** presents the purchase card, travel card, and convenience check transactions.

² Public Law No. 112-194 (October 5, 2012).

**Table 1. Purchase Card, Travel Card, and Convenience Check Transactions
(Q3 FY 2015 through Q2 FY 2018)**

		FY 2015 Q3-Q4	FY 2016	FY 2017	FY 2018 Q1-Q2
Purchase Card	Total Amount	\$24,289	\$64,420	\$78,043	\$35,923
	Number of Transactions	48	163	161	83
	Number of Cardholders	1	3	5	2
Travel Card	Total Amount	\$31,870	\$126,175	\$138,234	\$52,709
	Number of Transactions	225	852	886	327
	Number of Cardholders	9	16	18	18
Convenience Checks	Total Amount	\$0	\$1,647	\$435	\$980
	Number of Transactions	0	2	2	1
	Number of Authorized Check Users	1	1	1	1

Source: Citibank, N.A.

Risk Assessment Approach

To conduct our risk assessment, we developed a risk assessment methodology based on the internal control assessment framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).³ We identified key control objectives in each charge card and convenience check program using the criteria identified in the Charge Card Act, OMB Circular No. A-123, Appendix B, and Council's CCMP. Additional criteria was identified in the Federal Travel Regulation⁴ for control objectives specific to travel cards.

We assigned a risk rating to each control objective based on (1) the impact that a risk event may pose to the charge card and convenience check program, and (2) the likelihood that the risk event may occur. The combined risks of impact and likelihood determines the overall risk to the charge card and convenience

³ To develop the risk assessment methodology, we followed an industry standard presented in a research paper commissioned by the COSO, "Risk Assessment in Practice," *Deloitte & Touche, LLP* (October 2012).

⁴ *Federal Travel Regulation* (41 CFR 300-301).

check program. **Table 2** provides the heat map of impact and likelihood levels and the weight factors.

Table 2. Heat Map of Impact and Likelihood Risk Levels

		IMPACT					
		INCIDENTAL	MINOR	MODERATE	MAJOR	EXTREME	
LIKELIHOOD	ALMOST CERTAIN (90% ~ 100%)	Moderate	High	High	Very High	Very High	
	LIKELY (65% ~ 90%)	Low	Moderate	High	High	Very High	
	POSSIBLE (35% ~ 65%)	Low	Moderate	Moderate	High	High	
	UNLIKELY (10% ~ 35%)	Low	Low	Moderate	Moderate	High	
	RARE (0% ~ 10%)	Very Low	Low	Low	Low	Moderate	

Source: OIG risk assessment methodology

Table 3 provides the definitions of risk impact and risk likelihood for the respective risk ratings.

Table 3. Definition of Risk Impact and Risk Likelihood

Impact Level	Risk Impact	Likelihood Level	Risk Likelihood
Extreme	Impact of risk event to key control objective is severe as to require immediate management intervention	Almost Certain	Risk event is almost certain to occur; likelihood of occurrence is 90% up to 100%
Major	Impact of risk event to key control objective is major as to require immediate escalation to or intervention of management	Likely	Risk event is likely to occur; likelihood of occurrence is 65% up to 90%
Moderate	Impact of risk event to key control objective is moderate but material	Possible	Risk event is probable to occur; likelihood of occurrence is 35% up to 65%
Minor	Impact of risk event to key control objective is minor	Unlikely	Risk event is unlikely to occur; likelihood of occurrence is 10% up to 35%
Incidental	Impact of risk event to key control objective is negligible	Rare	Risk event is highly unlikely to occur; likelihood of occurrence is < 10%

Source: OIG prepared; definitions based on COSO's, "Risk Assessment in Practice," *Deloitte & Touche, LLP* (October 2012).

To assess overall risk to the charge card and convenience check program, we grouped and prioritized key control objectives by assigning greater weight to those objectives where a risk event could result in potential disruption of the charge card and convenience check program management and/or an improper payment being made if the control objective is not achieved.

Purchase Card Results

Purchase cards are government charge cards used for acquiring goods and services in support of official Council business. Each purchase card has a single transaction limit of \$3,500 and an account credit limit of \$14,000. Purchase cards are centrally billed. Each month, Council approves the charges and ARC processes the payments due. We determined the overall risk of illegal, improper, or erroneous purchases and payments for Council's purchase cards is low. Although the overall risk is low, risks in the key control objectives related to the Council's retention of sufficient records, and its effect on monitoring of purchase card use, were assessed as moderate. Specifically, ARC identified these matters in its post-payment reviews/audits. We will consider the actions taken as part of our next annual risk assessment. **Table 4** presents the risk levels of key control objectives for Council's purchase cards.

Table 4. Risk Levels for Purchase Cards

Key Control Objectives	Risk Weight	Risk Impact	Risk Likelihood	Risk Level
Policies and procedures for purchase cards were in place	50%	Incidental	Rare	Very Low
Charge Card Management Plan was current and complete		Incidental	Rare	Very Low
Records of cards issued and limits were maintained		Incidental	Rare	Very Low
Ratio of cardholders to approving officials was low		Incidental	Rare	Very Low
Periodic reviews of cardholder need were performed and processes to invalidate accounts of former employees existed.		Incidental	Rare	Very Low
Monitoring was designed to ensure that cards were used for authorized purchases only (i.e. reviews for pre-approvals, suspicious transactions, prohibited merchants)		Moderate	Unlikely	Moderate
Payments on accounts were timely		Incidental	Rare	Very Low
Sufficient and appropriate records of purchase transactions were retained		Moderate	Unlikely	Moderate
Card misuse requiring administrative and/or disciplinary actions were in place		Incidental	Rare	Very Low
Findings from management's post payment reviews were addressed	30%	Minor	Unlikely	Low
Previous audit recommendations were addressed		Incidental	Rare	Very Low
Training policies and procedures were in place	20%	Incidental	Rare	Very Low
Cardholders and approving officials received mandatory trainings		Incidental	Rare	Very Low

Source: OIG assessment of risks to purchase card control objectives.

Travel Card Results

Council provides travel cards to employees who expect to incur official travel expenses such as transportation and lodging. Most travel cards are individually billed accounts (IBA) and must be paid by the cardholder. All travel costs must be estimated and authorized before an employee begins official travel and all transportation and lodging expenses are required to be paid for using the travel card. Employees must then submit a voucher detailing the actual expenses incurred within 5 business days of each trip's completion. Split disbursement with direct repayment to Citibank is required for transportation and lodging expenses, while the employee is responsible for all other charges on the account.

We determined that overall risk of illegal, improper, or erroneous purchases and payments for Council's travel cards is low. While overall risk is low, we assessed risk in the key control objective related to Council's monitoring of travel card use as moderate since Council's monitoring did not include review of cash withdrawals. Council management acknowledged that such reviews need to be part of its monitoring process. It should be noted that we made no conclusions as to the appropriateness and use of the cash withdrawals by travel card holders as part of this risk assessment. **Table 5** presents the risk levels of key control objectives for Council's travel cards.

Table 5. Risk Levels for Travel Cards

Key Control Objectives	Risk Weight	Risk Impact	Risk Likelihood	Risk Level
Policies and procedures for travel cards were in place	50%	Minor	Unlikely	Low
Charge Card Management Plan was current and complete		Minor	Unlikely	Low
Credit worthiness of new charge card applicants was assessed		Incidental	Rare	Very Low
Records of cards issued and limits were maintained		Incidental	Rare	Very Low
Periodic reviews of cardholder need were performed, and processes to invalidate accounts of former employees existed		Incidental	Rare	Very Low
Monitoring was designed to ensure cards were used only for authorized reimbursable travel expenses only (i.e. reviews for pre-approvals, suspicious transactions, prohibited merchants)		Moderate	Possible	Moderate
Payments on accounts were timely		Incidental	Rare	Very Low
Card misuse requiring administrative and/or disciplinary actions were in place		Incidental	Rare	Very Low
Findings from management's post payment reviews were addressed	30%	Minor	Unlikely	Low
Training policies and procedures were in place	20%	Incidental	Rare	Very Low
Cardholders, approving officials, and agency/organization program coordinators (A/OPCs) received mandatory trainings		Incidental	Rare	Very Low

Source: OIG assessment of risks to travel card control objectives.

Convenience Check Results

Convenience checks provide a method to procure goods and services from merchants who do not accept charge cards. Because convenience checks incur additional fees when used and do not qualify for refunds, they cost Government agencies more than traditional purchase card transactions and are to be used only as a last resort.

For Council's convenience check program, we determined Council's overall risk of illegal, improper, or erroneous purchases and payments is very low. **Table 6** presents the risk levels of key control objectives for Council's convenience checks.

Table 6. Risk Levels for Convenience Checks

Key Control Objectives	Risk Weight	Risk Impact	Risk Likelihood	Risk Level
Policies and procedures for convenience checks were in place	50%	Incidental	Rare	Very Low
Charge Card Management Plan was current and complete		Incidental	Rare	Very Low
Monitoring was designed to ensure convenience checks were used only for authorized purchases only (i.e. reviews for pre-approvals, suspicious transactions, prohibited merchants)		Incidental	Rare	Very Low
Sufficient and appropriate records of check transactions were retained		Incidental	Rare	Very Low
Payments on accounts were timely		Incidental	Rare	Very Low
Check misuse requiring administrative and/or disciplinary actions were in place		Incidental	Rare	Very Low
Findings from management's post payment reviews were addressed	30%	Incidental	Rare	Very Low
Previous audit recommendations were addressed		Incidental	Rare	Very Low
Training policies and procedures were in place	20%	Incidental	Rare	Very Low
Check writers and approving officials received mandatory trainings		Incidental	Rare	Very Low

Source: OIG assessment of risks to convenience check control objectives

OBJECTIVE, SCOPE, AND METHODOLOGY

We performed our risk assessment of the Gulf Coast Ecosystem Restoration Council's (Council) charge card (collectively, purchase cards, travel cards, and centrally billed accounts) and convenience check program. The objective of our assessment was to identify and analyze the risk of illegal, improper, or erroneous purchases and payments in order to determine the scope, frequency, and number of periodic audits of charge card and/or convenience check transactions.

The scope of our risk assessment was comprised of the following:

- charge card and convenience check program;
- Charge Card Management Plan(s) (CCMP) for calendar years 2015 through 2018;
- all 455 purchase card transactions totaling \$202,675 made beginning third quarter (Q3) fiscal year (FY) FY 2015 through second quarter (Q2) FY 2018;
- all 2,290 travel card transactions totaling \$348,988 made beginning Q3 FY 2015 through Q2 FY 2018;
- all 5 convenience check transactions totaling \$3,062 made beginning Q3 FY 2015 through Q2 FY 2018; and
- policies, procedures, and guidance governing charge card and convenience check use.

To meet the objective of our risk assessment, we performed the following procedures:

- reviewed applicable laws, Office of Management and Budget (OMB) guidance, and policies and procedures for Council;
- reviewed Council's CCMPs for calendar years 2015 through 2018;
- reviewed Council's Interagency Agreement (IAA) with the Department of Treasury (Treasury), Bureau of the Fiscal Service's Administrative Resource Center (ARC);
- reviewed evidence of training on charge card and convenience check use;
- reviewed Council's fiscal year 2017 and 2018 *Federal Managers' Financial Integrity Act of 1982* assurance statement for internal control matters involving charge card and convenience checks;
- reviewed previous audits, evaluations, and other assessments for charge card related control findings to include audits of Council's financial statements for fiscal years 2015 through 2018 and the examination report of ARC's controls, *Description of its Financial Management Services and the Suitability of the Design and Operating Effectiveness of its Controls for the Period July 1, 2017 to June 30, 2018* (OIG-18-051; September 20, 2018); no findings were noted for the periods under audit and examination;
- reviewed ARC post-payment reviews, conducted on behalf of Council, related to the use of charge cards and convenience checks and any reported findings;

- reviewed the documents and reports provided by Council, including the annual charge card statistics and narrative reports submitted to OMB;
- interviewed Council officials responsible for administering Council's charge card and convenience check program;
- interviewed ARC Agency/Organization Program Coordinators responsible for supporting Council in managing the charge card and convenience check program;
- analyzed all transactions for the period within scope that comprised (1) 455 purchase card transactions (\$202,675), (2) 2,290 travel card transactions (\$348,988), and (3) 5 convenience check transactions (\$3,062) to identify anomalies and/or potential prohibited purchases (i.e. large dollar purchases, duplicate transactions, single transactions exceeding the \$3,500 purchase card limit, unauthorized cash advances, personal use transactions) and assess the impact on the control objective related to the design of monitoring procedures to ensure purchase and travel cards and convenience checks were used for authorized purchases only (i.e. reviews for pre-approvals, suspicious transactions, prohibited merchants);
- developed a risk assessment methodology based on the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) commissioned industry standard research paper, "Risk Assessment in Practice," (Deloitte & Touche, LLP; October 2012). As part of the risk assessment methodology, key control objectives for purchase cards, travel cards, and convenience checks were grouped and assigned risk weights giving greater weight to those objectives where a risk event could result in potential disruption of the charge card and convenience check program management and/or an improper payment being made if the control objective is not achieved; and
- assessed all key control objectives using the risk assessment methodology to identify potential risk events and not for the purpose of concluding on the design and effectiveness of controls as this was not an audit; and as such, audit procedures such as requesting and analyzing documentation to support purchase transactions and other testing procedures were not performed.

We performed our risk assessment at the Office of Inspector General in Washington D.C. from June through November 2018.