DATE: September 30, 2015

TO: Denise Turner Roth
                  Administrator (A)

FROM: Carol F. Ochoa
                  Inspector General (J)

SUBJECT: GSA Office of Inspector General's Fiscal Year 2014 Risk Assessment
                  of GSA's Charge Card Program
                  Memorandum Number A150037-3

The Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act) was enacted to prevent waste, fraud, and abuse that may exist in federal charge card programs. The Charge Card Act and Office of Management and Budget (OMB) Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012*, require Inspectors General to annually conduct risk assessments of purchase card programs and travel card programs with more than $10 million in annual spending. These assessments analyze the risks of illegal, improper, or erroneous purchases and payments. Inspectors General are required to use these risk assessments to determine the necessary scope, frequency, and number of audits to be performed in these areas.

In accordance with the Charge Card Act and OMB Memorandum M-13-21, we conducted a risk assessment of GSA's fiscal year (FY) 2014 purchase card program. We also performed a risk assessment of GSA's FY 2014 travel card program. GSA's spending under the travel card program for FY 2014 did not meet the $10 million threshold. However, we elected to perform a risk assessment given the increase in FY 2014 travel spending from FY 2013 levels and the underlying risks of misuse and abuse associated with the travel card.

To identify and analyze the risk of illegal, improper, or erroneous purchases and payments made through GSA's purchase and travel card programs, we reviewed GSA's policies and procedures, internal controls, and questionable charges reports, as well as prior audit work completed in these areas. In addition, we conducted limited testing of certain controls over GSA's purchase and travel card programs to determine the operational effectiveness of these controls and develop more informed conclusions about the risks associated with the FY 2014 purchase and travel card programs. Our complete methodology is described in ***Appendix A***.

Summary Results

Based upon the risk assessment, we plan to conduct an audit of GSA's purchase card program in FY 2016. The overall assessed level of risk for GSA's purchase and travel card programs are summarized below in *Figure 1*.

Figure 1 – Results of Risk Assessment

Charge Card Program	Assessed Level of Risk
Purchase Card	High
Travel Card	Moderate

Purchase Card Risk Assessment

As of September 30, 2014, GSA had 929 active purchase cardholders, which accounted for approximately 8 percent of GSA's staff of 11,512 employees. This is roughly a 12 percent decline from the number of active purchase cardholders in FY 2013. The total dollars spent using purchase cards between FY 2011 and FY 2014 are presented in *Figure 2*. Over this time period, GSA's total purchase card spending has continuously declined, with FY 2014 spending down by more than 57 percent from FY 2011. In FY 2014, GSA spent over $29.8 million through its purchase card program – a decline of 11 percent from FY 2013.

Figure 2 – GSA Purchase Card Spending for FY 2011 – FY 2014
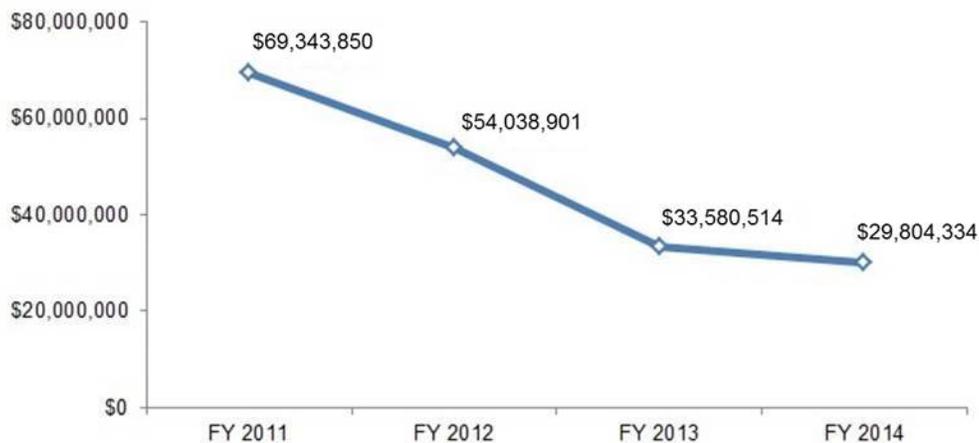
GSA has policies and procedures designed to mitigate purchase card misuse and abuse. These policies are outlined in GSA's Charge Card Management Plan in accordance with the requirements of the Charge Card Act. Specifically, the management plan: (1) provides a listing and responsibilities of key personnel; (2) describes procedures for issuing and revoking a purchase card; (3) explains training requirements for purchase cardholders; (4) includes recordkeeping requirements; (5) details the monitoring and review process of various purchase card transaction reports; and (6) provides disciplinary procedures for employees who misuse or abuse their

purchase card. Using these policies and procedures, GSA identified 1,636 questionable purchase card transactions for further review during FY 2014. As a result of these monitoring efforts, the Agency referred one case to the Office of Inspector General for further investigation.

During our testing of key controls over the purchase card program, however, we identified instances in which these controls were either lacking support, not operating effectively, or inadequate. As a result, GSA does not have sufficient assurance that these controls are effective to detect and prevent illegal, improper, or erroneous purchases made through the purchase card program.

Lack of supporting documentation in Pegasys

GSA does not have sufficient assurance that purchase cards are used exclusively for approved and business-related goods and services due to a lack of supporting documentation within GSA's core financial management system, Pegasys. We selected a random sample of 15 purchase card transactions below the micro-purchase threshold of $3,000 and reviewed the supporting documentation for each transaction maintained within Pegasys. For 11 of the 15 transactions, sufficient documentation was not maintained within Pegasys to support the purchase.

GSA has policies in place to ensure purchase card transactions are supported. GSA's Charge Card Management Plan and related implementation guidance require purchase cardholders to maintain supporting documents (*e.g.*, pre-written authorization, invoices/receipts, and independent receipt and acceptance of goods and services) in Pegasys. Further, GSA Order CFO 4200.1A, *Use of the GSA Purchase Card,* requires approving officials to perform a monthly random sample of recent transactions to verify the sufficiency and adequacy of their cardholders' supporting documentation.[1] However, despite these policies, supporting documentation is still lacking.

Taking steps to ensure that all required documentation associated with purchase card transactions is captured within Pegasys could provide the Agency with greater assurance that purchase card transactions are valid.

Controls over questionable purchase card transactions are not operating effectively

Limitations in GSA's process to detect purchase card misuse and/or abuse could increase the Agency's risk of making payments on illegal, improper, or erroneous purchase card transactions. GSA's Travel Policy and Charge Card Division (charge card program office) runs monthly queries using key words to identify questionable

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[1] GSA Order CFO 4200.1A, *Use of the GSA Purchase Card*, was in effect for FY 2014, the period covered under our risk assessment. Effective January 7, 2015, this order was superseded by GSA Order OAS 4200.1A, *Management and Use of the GSA SmartPay Purchase Card*.

purchase card transactions.[2] Examples of key words used in this process include, but are not limited to, "race track," "casino," "adult," and "movies." The results of these queries are compiled into an initial questionable charges report. The charge card program office subsequently reviews this report to determine whether the transactions are for a legitimate business need. The transactions that the charge card program office deems legitimate are removed from the initial questionable charges report. The charge card program office then sends the updated questionable charges report to the appropriate regional personnel to obtain justification for each questionable transaction identified. However, we replicated this process during our testing and identified instances in which this control did not operate effectively.

Using GSA's key word search criteria, we queried FY 2014 purchase card transactions to identify possible questionable charges. We filtered the questionable charges identified for October 2013 to March 2014 and judgmentally sampled 70 transactions. We compared these transactions against GSA's initial and updated questionable charges reports for the same period.

Through our testing of the 70 sampled transactions we determined that:

- Forty-eight transactions (69 percent) were properly incorporated on both the initial and updated questionable charges reports.
- Nine transactions (13 percent) were not identified through GSA's key word search and were not included on the initial questionable charges reports. As a result, these transactions were not subject to further review by the charge card program office.
- Thirteen transactions (18 percent) were identified on the initial questionable charges reports but were incorrectly deemed legitimate by the charge card program office and removed from the updated reports. We reviewed these transactions in Pegasys and did not find sufficient documentation to support the transactions. Accordingly, these transactions should have been included on the updated questionable charges report and sent to the appropriate regional personnel for justification.

In addition to the testing described above, we tested GSA's updated questionable charges reports to determine if GSA was taking appropriate action on the transactions identified. In FY 2014, 367 questionable charges were identified through this process and included on the updated questionable charges reports sent to the regional personnel for justification. Of these 367 transactions, 44 (12 percent) were not validated with a response from the regional personnel.

Further, we could not find evidence that the charge card program office applied additional procedures to validate these transactions. We inquired whether the charge card program office regularly took action to follow up on these transactions. GSA officials stated that they lacked the resources to consistently perform such procedures.

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[2] GSA's Travel Policy and Charge Card Division, housed within GSA's Office of Administrative Services, has oversight responsibility for the Agency's purchase card and travel card programs.

Absent sufficient follow up activities, GSA faces increased risk of illegal, improper, or erroneous purchase card transactions.

Ineffective controls related to flagged merchant category codes (MCCs)

An MCC is a 4-digit number assigned to a merchant by credit card companies to classify the business by the type of goods or services it sells. GSA's Charge Card Management Plan states that MCCs are an attribute used to identify questionable purchase card transactions. Examples of flagged MCCs include, but are not limited to, specialty retail stores, caterers, and automobile dealerships. During our testing, we found that GSA's use of flagged MCCs to detect questionable purchase card transactions was not effective. Although GSA maintains and annually reassesses a listing of flagged MCCs, GSA did not consistently identify transactions with flagged MCCs. As a result, transactions with flagged MCCs were not always included on GSA's questionable charges reports. Enhanced control activities related to flagged MCCs could mitigate program risks and provide greater assurance over the purchase card program.

Inadequate controls over prohibited or higher risk purchase card transactions

During our testing, we did not find evidence of control activities related to the following types of purchase card transactions that are prohibited or carry a higher level of inherent risk:

- *Split transactions:* A split transaction results from separating a single purchase into multiple transactions. Split transactions are prohibited under GSA Order CFO 4200.1A, *Use of the GSA Purchase Card*. Split transactions are of concern because they allow cardholders to circumvent their single transaction limits, thereby increasing the risk of wasteful or fraudulent purchases. GSA officials stated that while they are currently working to develop a control over split transactions, they did not have controls in place for these types of transactions in FY 2014.
- *Purchase card transactions made on weekends*: GSA stated that there were no processes in place to analyze purchase card transactions made on weekends in FY 2014. Although not prohibited, these types of transactions carry a higher risk of misuse or abuse of the purchase card.

Without well-developed processes and procedures in place to identify prohibited or higher risk transactions, GSA does not have the ability to make reasonable determinations on the legitimacy of these purchases. Implementing controls over these types of transactions could help the Agency mitigate risks and provide greater assurance over the purchase card program.

Purchase Card Conclusion

Based upon our testing, we determined that sufficient evidence exists to assess a high level of risk of illegal, improper, or erroneous purchases made through GSA's purchase card program during FY 2014. This is an increase from our FY 2013 assessment of a moderate level of risk for the program. While GSA has policies and procedures in place designed to mitigate purchase card misuse and abuse, our testing indicated that certain controls are not operating effectively and should be improved to provide greater assurance over the purchase card program. As a result of our risk assessment, we plan to conduct an audit of GSA's purchase card program in FY 2016.

Travel Card Risk Assessment

As of September 30, 2014, GSA had 8,861 active travel cardholders, which accounted for approximately 77 percent of GSA's 11,512 employees. This is roughly a 4 percent decline from the number of active travel cardholders in FY 2013. The total dollars spent using travel cards between FY 2011 and FY 2014 are presented in *Figure 3*. Over this time period, GSA's total travel card spending has declined, with FY 2014 spending down over 68 percent from FY 2011. However, in FY 2014, GSA's travel card spending increased by more than 26 percent from FY 2013 to over $5.3 million.

Figure 3 – GSA Travel Card Spending for FY 2011 – FY 2014

GSA's travel card program expenditures in FY 2014 did not meet the $10 million threshold at which the Charge Card Act requires a risk assessment. However, due to the underlying risks associated with this program and the increase in travel card spending for FY 2014, we elected to conduct a risk assessment of GSA's travel card program.

GSA has policies and procedures in place to mitigate travel card misuse. These policies are outlined in GSA's Charge Card Management Plan in accordance with the requirements of the Charge Card Act. Specifically, the management plan: (1) provides a listing and responsibilities of key personnel; (2) describes procedures for issuing and

revoking a travel card; (3) explains training requirements for travel cardholders; (4) includes recordkeeping requirements; (5) details the monitoring and review process of various travel card transaction reports; and (6) provides disciplinary procedures for employees who misuse or abuse their travel card. Using these policies and procedures, GSA identified 1,007 questionable travel card transactions for further review during FY 2014. As a result of these monitoring efforts, the Agency initiated 11 disciplinary actions for travel card misuse and referred one case to the Office of Inspector General for further investigation.

As part of our risk assessment, we conducted testing of key controls related to the travel card program. Our testing identified instances in which controls were either lacking support or not operating effectively. In addition, we identified inadequacies in GSA's travel card training program. As a result, GSA does not have sufficient assurance that these controls are effective to detect and prevent illegal, improper, or erroneous transactions made through the travel card program.

Lack of supporting documentation in GSA's travel management system

GSA does not have sufficient assurance that travel cards are used exclusively for approved official travel expenses due to a lack of supporting documentation within its travel management system. GSA Order PFM P 4290.1, *GSA Internal Travel Regulations and Control of Official Travel*, requires travel cardholders to attach all required receipts to the travel voucher. This order and the related implementation guidance require maintenance of receipts for any claimed travel expenses in excess of $75. We selected a random sample of 18 individual travel card transactions that exceeded the $75 threshold and reviewed the supporting documentation in GSA's travel management system. For 5 of the 18 transactions (28 percent) sufficient documentation was not maintained within GSA's travel management system to support the transaction. Instituting measures to ensure all required documentation is captured within its travel management system could provide GSA with more effective support for travel card transactions.

Controls over questionable travel card transactions are not operating effectively

Limitations in GSA's process to detect travel card misuse and/or abuse could increase the Agency's risk of making payments on illegal, improper, and erroneous travel card transactions. GSA runs monthly queries using key words to identify questionable travel card transactions. Examples of key words used in this process include, but are not limited to, "race track," "casino," "adult," and "movies." The results of these queries are compiled into an initial questionable charges report. The charge card program office subsequently reviews each transaction listed on this report in GSA's travel management system to determine whether the transactions are legitimate official travel expenses. The transactions that the charge card program office deems legitimate are removed from the initial questionable charges report. The charge card program office then sends the updated questionable charges report to the appropriate regional personnel who are responsible for providing justifications for each questionable transaction identified.

However, we replicated this process during our testing and identified instances in which this control did not operate effectively.

Using GSA's key word search criteria, we queried FY 2014 travel card transactions to identify possible questionable charges. We filtered the questionable charges identified for January 2014 to March 2014 and judgmentally sampled 17 transactions. We compared these transactions against GSA's initial and updated questionable charges reports for the same period.

Through our testing of the 17 sampled transactions we determined that:

- Three transactions (18 percent) were properly incorporated on both the initial and updated questionable charges reports.
- Thirteen transactions (76 percent) were not identified through GSA's key word search and were not included on the initial questionable charges reports. As a result, these transactions were not subject to further review by the charge card program office.
- One transaction (6 percent) was identified on an initial questionable charges report but was subsequently deemed legitimate by the charge card program office and removed from an updated report. However, we reviewed this transaction in GSA's travel management system and did not find sufficient documentation to support the transaction. Accordingly, this transaction should have been included on the updated questionable charges report and sent to the regional personnel for justification.

In addition to the testing described above, we tested GSA's updated questionable charges reports to determine if GSA was taking appropriate action on the travel card transactions identified. In FY 2014, 282 questionable charges were identified through this process and included on the updated questionable charges reports sent to the regional personnel for justification. Of these 282 transactions, 36 (13 percent) were not validated with a response from the regional personnel.

Further, we could not find evidence that the charge card program office applied additional procedures to validate these transactions. We inquired whether the charge card program office regularly took action to follow up on these transactions. GSA officials stated that they lacked the resources to consistently perform such procedures. Absent sufficient follow up activities, GSA faces increased risk of illegal, improper, or erroneous travel card transactions.

Ineffective controls related to flagged merchant category codes

During our testing, we found that GSA's use of flagged MCCs to detect questionable travel card transactions was not effective. Although GSA maintains and annually reassesses a listing of flagged MCCs, GSA did not consistently identify transactions with flagged MCCs. As a result, transactions with flagged MCCs were not always included on GSA's questionable charges reports. Enhanced control activities related to flagged MCCs could mitigate program risks and provide greater assurance over the travel card program.

Inadequacies in the travel card training program

The charge card program office could not provide evidence that travel cardholders received the required training to obtain a travel card. We requested training certificates for a sample of 18 travel cardholders. The charge card program office could not provide certificates for 14 of the 18 (78 percent) travel cardholders selected in our sample. A charge card program office official stated that this was due to a February 2011 update to the database containing travel card training certificates. As a result of this update, the charge card program office only has access to training certificates for travel cardholders who completed the required training after February 2011.

In addition, and as previously noted in our FY 2013 charge card risk assessment,[3] GSA has not implemented a refresher training course for the travel card program as required by Appendix B, *Improving the Management of Government Charge Card Programs*, of OMB Circular No. A-123, *Management's Responsibility for Internal Control*. GSA's Charge Card Management Plan only requires that all new travel card applicants take the travel charge card training. However, OMB Circular No. A-123, Appendix B provides that "[a]ll program participants must take refresher training, at a minimum, every three years." Without completing this refresher training, it is possible that GSA travel cardholders are not aware of the current travel card program policies. Ensuring that all travel cardholders are sufficiently trained could mitigate the risk of misuse and abuse of the travel card.

Travel Card Conclusion

Based upon our testing, we determined that sufficient evidence exists to assess a moderate level of risk of illegal, improper, or erroneous purchases made through GSA's FY 2014 travel card program. This is an increase from our FY 2013 assessment of a low level of risk for the program. While GSA has policies and procedures in place governing the travel card program, our testing indicated that certain controls could be strengthened to provide greater assurance over the effectiveness of the program's control environment. However, mitigating controls are in place to reduce the overall risk of travel card misuse and abuse. For example, GSA limits reimbursement to travel cardholders to approved expenses incurred while on official travel, and individual travel

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[3] *GSA Office of Inspector General Fiscal Year 2013 Risk Assessment of GSA's Charge Card Program* Memorandum Number A140019-3, September 29, 2014.

cardholders are liable for any remaining balance on their card. As a result of our risk assessment, we are not planning to conduct an audit of GSA's travel card program in FY 2016.

I would like to thank you and your staff for your assistance during this risk assessment. If you have any questions regarding this audit memorandum, please contact me at 202-501-0450, or Theodore R. Stehney, Assistant Inspector General for Auditing, at 202-501-0374.

Appendix A – Risk Assessment Methodology

To complete our risk assessment of GSA's FY 2014 charge card program, we:
- Reviewed the Charge Card Act and related OMB and GSA policies;
- Reviewed the Federal Acquisition Regulation;
- Interviewed GSA's charge card program personnel to gain an understanding of the program;
- Defined our risk assessment criteria;
- Assessed the inherent risks for each GSA program area by likelihood and impact;
- Reviewed GSA's controls, including:
  - o GSA's FY 2014 Charge Card Management Plan;
  - o Training for purchase and travel cardholders, approving officials, and Agency/Organization Program Coordinators;
  - o GSA reports related to the purchase and travel card programs;
  - o Supporting documentation for purchase and travel card transactions; and
  - o Monthly purchase and travel card questionable transaction analyses.
- Performed a test of controls for a sample of purchase card and travel card transactions; and
- Assessed each program's residual risk based on our testing of controls.

Appendix B – Memorandum Distribution

Administrator (A)

Chief Administrative Services Officer (H)

GAO/IG Audit Response Division (H1C)

Assistant Inspector General for Auditing (JA)

Deputy Assistant Inspector General for Investigations (JI)

Director, Audit Planning, Policy, and Operations (JAO)