



Office of Inspector General
Pension Benefit Guaranty Corporation

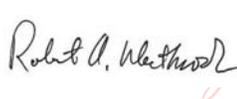
August 12, 2016

MEMORANDUM

TO: Tom Reeder
Director

Steve Block
Director, Procurement Department

FROM: Robert A. Westbrooks
Inspector General

 Robert Westbrooks
2016.08.12 15:41:25
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SUBJECT: OIG Special Report - FY 2016 Purchase Card Risk Assessment

Background

The Government Charge Card Abuse Prevention Act of 2012 (Public Law 112-194) requires federal agency heads to establish and maintain safeguards and internal controls over government purchase cards. The Act requires Offices of Inspector General to (1) conduct periodic assessments of the government purchase card program to identify and analyze risks of illegal, improper or erroneous purchases and payments in order to develop a plan for using such risk assessments to determine the scope, frequency, and number of periodic audits of purchase card transactions; (2) perform analysis and audits, as necessary, to identify potentially illegal, improper, or erroneous uses of purchase cards; and (3) report results to the agency head. According to Office of Management and Budget memorandum M-13-21, this risk assessment should be performed annually. The purpose of this memorandum is to fulfill the requirements of the Act and OMB guidance.

Executive Summary

Generally, we found that PBGC has policies and procedures in place to address the requirements in the Act, and has internal controls to assist in the monitoring of this program. Based on our review, we determined that the risk of illegal, improper, or erroneous purchases is low. We conclude that an OIG audit of this program is not warranted at this time, but we will

be conducting an inspection beginning in August 2016 to provide management with a more timely and flexible analysis of purchase card transactions.

Assessment

The Procurement Department (PD) is responsible for overseeing the purchase card program. An employee within PD serves as the Agency Program Coordinator (APC). Each department has Approving Officials that give oversight to the cardholders within their respective departments. In FY 2015, PBGC had purchase card expenditures totaling \$1,656,860.59. In FY 2016 to date, PBGC has had expenditures of \$1,315,128.72. As of August 8, 2016, there were 51 cardholders and 25 Approving Officials, all based in Washington, DC. Since 2015, there has been one employee who misused the purchase card by completing split purchases. This matter was referred to the Office of General Counsel and the cardholder's account was subsequently suspended in June 2016.

The primary PBGC policy that governs the use of purchase cards is the Purchase Card Manual, dated May 20, 2016. This policy explains application procedures, training requirements for cardholders and approving officials, single purchase limits, and purchase card usage restrictions. These policies are consistent with the requirements in the Act.

As required by the OMB Circular A-123 – Appendix B, the Corporate Controls and Reviews Department (CCRD) conducts annual reviews on the purchase card program. This report, titled *Pension Benefit Guaranty Corporation Charge Card Management Plan*, is submitted to OMB on an annual basis. CCRD identifies what actions PBGC has taken to ensure that risk management policies and procedures remain current and effective. In the most recent report, the following are examples of practices PBGC has taken in this area:

- PBGC has identified certain Merchant Category Codes (MCC) as restricted to ensure that certain types of goods and services cannot be purchased.
- The APC performs monthly reviews, as well as a yearly review of all transactions.
- PD requires mandatory training requirements for all program participants.
- Cardholders are required to document their transactions and maintain a purchase card transaction log.
- The APC will use Visa's enhanced merchant reporting tool (a comprehensive reporting and custom query export tool maintained by U.S. Bank) and Visa's expert monitoring system (a rule-based control and compliance tool with scheduled reports developed by U.S. Bank) to monitor daily transactions.

Additionally, in CCRD's Report No. 2016-4002, *Limited Evaluation of Selected Purchase Card Transactions and Accounts for FY 2015*, CCRD conducted a limited evaluation of purchase card transactions. CCRD inspected data, performed testing of selected transactions, and reviewed relevant policies and procedures. In addition, CCRD included a status on prior year observations to determine whether or not PBGC had addressed issues that were previously identified. In the most recent report, CCRD observed that PD had remediated 11 of 13 prior year observations.

The APC maintains a folder for each cardholder, which includes the training certificate and the authorization letter that identifies the purchase limitation for the cardholder. The APC performs monthly reviews of transactions that are screened against MCCs. The APC uses the U.S. Bank's online system to review statements and to conduct periodic reviews to ensure that there is supporting documentation of the transactions. The APC also conducts a yearly audit review on all cardholders' files and transactions. The APC ensures that certain MCCs are restricted; for instance, purchase cardholders cannot buy anything overseas without getting an approval from the APC.

Although we concluded that PBGC has adequate policies and procedures in place, we did identify certain areas where PBGC could strengthen its controls over the purchase card program:

- The PBGC Purchase Card Manual does not require that cardholders obtain written pre-approval before making a purchase. According to OMB Circular A-123 – Appendix B, “agency personnel requesting a cardholder to acquire an item(s) with a purchase card should provide written requests to the purchase cardholder for the items.” Although it appears that this is usually occurring, the policy should be revised to explicitly state this requirement. The pre-approval should be documented in the form of an email, requisition, memo/note, etc., certifying that the proposed purchase is for a legitimate need of the government and not for a personal benefit. Additionally, the policy should state that this pre-approval must be obtained from a supervisor, Approving Official, or higher authority.
- Based upon interviews, PBGC may not be taking full advantage of opportunities to obtain rebates based on prompt payment, sales volume, or other actions under the purchase card program. PBGC may want to review any existing opportunities to pay vendors with a purchase card that could result in additional savings. According to the Act, agencies should ensure that “rebates and refunds based on prompt payment, sales volume, or other actions . . . on purchase card accounts are reviewed for accuracy and properly recorded as a receipt to the agency that pays the monthly bill.” Additionally,

OMB Circular A-123 – Appendix B states that the proper management of refunds is critical to ensuring that agencies maintain cost-effective charge card programs.

Appendix B states that charge card managers must strive to:

- Obtain the best competitive deal from charge card vendors in terms of sales and productivity refunds offered balanced against the services provided;
- utilize proper cash management decision-making to maximize agency sales productivity refunds or government-wide interest income earned by Treasury as the situation determines; and
- employ the necessary internal controls to identify and collect corrective refunds.

Conclusion

We assess the overall risk of illegal, improper, or erroneous purchases is low. Our conclusion is based on the number of cardholders, the dollars involved, the co-location of the APC with all cardholders and Approving Officials, the known history of the program at PBGC, the existence of agency policy and procedures, APC monitoring activities, and CCRD review activities. We believe the purchase card program poses a low risk to PBGC's strategic, operational, financial, and compliance objectives as reflected on Table 1 in the Appendix and does not warrant an OIG audit. Notwithstanding this assessment, we will be conducting an inspection beginning in August 2016 to provide management with a more timely and flexible analysis of purchase card transactions.

Appendix - Objective, Scope and Methodology

Our objective was to analyze the risks of illegal, improper, or erroneous purchases and payments associated with PBGC's purchase card program in FY 2016.

Our risk assessment was based upon a review of purchase card policies and procedures in effect as of August 1, 2016. We interviewed the purchase card program manager and Corporate Controls and Reviews Department (CCRD) officials; reviewed CCRD's Report No. 2016-4002, *Limited Evaluation of Selected Purchase Card Transactions and Accounts for FY 2015*; reviewed the *Pension Benefit Guaranty Corporation Charge Card Management Plan for FY 2015*; considered internal control testing performed during our annual financial statement audit; and conducted a limited examination of transactions from October 1, 2015 to August 1, 2016. The OIG does not have any outstanding audit recommendations regarding purchase card operations.

We used four risk categories in our risk assessment - strategic, operational, financial, and compliance - as defined in Table 1 on page six. We assessed the impact and likelihood of risks by risk category considering the effect of internal controls and other relevant documentation. We assigned a level of low, medium, or high. We combined the impact and likelihood of each risk category to arrive at an overall risk level.

Table 1 – Summary of Risk Assessment

Category	Definition	Rating		
		Impact	Likelihood	Overall
Strategic	The risk that an event relating to the purchase case could occur that has a significant effect on PBGC's strategic goals and objectives.	LOW	LOW	LOW
Operational	The risk that an event related to the purchase card could be negatively affected by inadequate, ineffective, or failed business processes, human capital, or technology and information management.	LOW	LOW	LOW
Financial	The risk that an event related to the purchase card could occur that has a significant financial effect on the agency's budget process.	LOW	LOW	LOW
Compliance	The risk that an event related to the purchase card could hamper the program's ability to comply with applicable laws, regulations, or internal policies and procedures related to the purchase card.	LOW	LOW	LOW