



Office of Inspector General  
Pension Benefit Guaranty Corporation

March 4, 2019

TO: Tom Reeder  
Director

Alice Maroni  
Chief Management Officer

FROM: Robert A. Westbrooks  
Inspector General *Robert A. Westbrooks*

SUBJECT: OIG Special Report - FY 2018 Purchase Card Risk Assessment (SR- 2019- 07)

## Background

The Government Charge Card Abuse Prevention Act of 2012 (Act) 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

In general, PBGC's policies procedures and internal controls are designed to provide reasonable assurance for implementing and managing the PBGC charge card program and to mitigate the potential for fraud and misuse. 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.

## **Assessment**

### *PBGC Purchase Card Program*

The Corporation does not spend a significant amount of its funds via the purchase card compared to PBGC's overall budget. According to the annual PBGC Charge Card Management Plan dated January 31, 2018, the Corporation spends less than 1% of the agency's administrative budget with the purchase card. In FY 2018, PBGC had purchase card expenditures totaling \$2,202,974. As of September 30, 2018, there were 45 cardholders and 22 approving officials, all based in Washington, DC.

### *Procurement Department*

The Procurement Department (PD) is responsible for overseeing the purchase card program. An employee within PD serves as the Agency Program Coordinator (APC) and each department has approving officials that give oversight to the cardholders within their respective departments. On an annual basis, PBGC-contracted personnel perform reviews of purchase card records for each cardholder.

The primary PBGC policy that governed the use of purchase cards in FY 2018 were the *Purchase Card Manuals*, dated August 1, 2017 and March 26, 2018. This policy explains application procedures, training requirements for cardholders and approving officials, purchase limits, purchase card usage restrictions, responsibilities, and administrative actions. These procedures are consistent with the requirements in the Act.

### *Charge Card Management Plan and Corporate Controls and Reviews Department (CCRD)*

To meet the annual requirements of OMB Circular A-123 – Appendix B, Improving the Management of Government Charge Card Programs, PBGC submitted the *Pension Benefit Guaranty Corporation Charge Card Management Plan* for FY 2017 to OMB on January 31, 2018. CCRD ensured responsible management officials reviewed and updated the plan incorporating any changes required by A-123, received approval from the Chief Financial Officer and the Chief Management Officer, and submitted the report to OMB. The resulting plan met the requirements and included all elements required by Appendix B pertaining to purchase cards.

Maintaining a charge card management plan is important because the establishment of written, formal policies and procedures are critical to assure that a system of internal controls is followed, and to minimize the potential for fraud, misuse, and delinquency.

As a supplement to the annual PBGC Charge Card Management Plan submission to OMB, CCRD performed a limited evaluation of selected purchase card transactions and accounts for FY 2017 in their Report No. 2018-4001, issued on May 4, 2018. The objective of this evaluation was to provide input regarding PBGC's compliance with selected requirements of Appendix B and applicable purchase card policies and procedures in place during FY 2017.

During this effort, CCRD interviewed responsible staff in PD, obtained copies of policies and procedures, inspected data supporting card statistics, and performed testing of selected transactions and accounts relating to the FY 2017 period. CCRD did not identify any purchase card related issues. In addition, CCRD determined that PBGC implemented corrective actions on previously identified issues related to purchase card closing procedures, purchase cards for the Continuity of Operations Plan, and proper writing of convenience checks.

#### *Implementation of Prior OIG Recommendations*

We also reviewed the implementation of the five recommendations from the 2017 Inspection Report of *PBGC's Purchase Card Program* (No. INSP-2017-13/17-0006-I). Our review identified that four of the recommendations were implemented, but one has not been fully implemented. Specifically:

**“Recommendation No. 1 (OIG Control Number OI-3)** - Require the APC to update the Included Template at least yearly and use additional Rules Management functionality of U.S. Bank *Payment Analytics* as appropriate.

**PBGC Response and OIG Evaluation** - Resolved. PBGC agreed with the recommendation and has begun updating the “Included” templates to reduce the authorized MCCs [Merchant Category Codes] for each cardholder. Additionally, the APC has initiated training to use U.S. Bank *Payment Analytics*.”

We found that PBGC has not annually updated the authorized MCCs Included Template. The APC stated that she had not updated the list since 2017, for day-to-day reviews she utilizes an annotated hard copy listing. As reported in our 2017 report, agencies review their MCCs on a yearly basis, usually in October, to reflect what took place in the last fiscal year. The failure to keep this list up to date may result in non-authorized or out-of-policy purchases. Additionally, while the APC stated she completed the U.S. Bank analytics training, the APC is not utilizing the automated tools available to assist in monitoring PBGC's purchase card program. Overall, we observed that a manual process relying on a visual review of records remained as reported in our 2017 report:

“Section (a)(11) of the [Government Charge Card Abuse Prevention] Act, Required Safeguards and Internal Controls, requires PBGC to use effective systems, techniques,

and technologies to prevent or identify illegal, improper, or erroneous purchases ... We found that the APC currently conducts monthly reviews of transactions by downloading a spreadsheet from this system and manually screening it against MCCs...During our period of our inspection, the APC did not identify any inappropriate purchases using this method. PBGC averages over 280 transactions per month, and the APC is solely responsible for this manual review in addition to other duties related and unrelated to the program.

We also found that the APC is not fully using U.S. Bank Payment Analytics, which is a web-enabled tool available to PBGC to provide automatic, 100% transaction for post-payment monitoring. Payment Analytics allows the APC to create rule templates that automatically review transactions, as well as flag suspected card misuse and out-of-policy spending. This feature sends the APC an alert for transactions made outside of the rules set. These rules, for example, can be used to remind the APC to block a previously opened Merchant Category Codes, track transactions as prohibited merchant category codes, monitor transactions that occur on a weekend, identify split transactions, or extensive use of convenience checks ... To help lessen the likelihood of this occurring, U.S. Bank Payment Analytics could be used to send an alert when the APC needs to close a Merchant Category Codes that was previously unblocked.”

Based on the lack of implementation of the previous recommendation, we are administratively re-opening the recommendation. Without implementation, the purchase card program controls are not operating as effectively as they could.

### **Results of Risk Assessment: Change from Prior Year**

Based on the observations related to the prior recommendation that was not fully implemented and the continued reliance on manual processes for purchase card administration, we increased the compliance risk likelihood from low (2017) to medium. Nevertheless, due to the low impact, overall risk is still considered low. Table 1 shows each risk category’s level for impact and likelihood for the purchase card program. The average overall risk level determines the final risk assessment for the PBGC’s purchase card program.

**Table 1 – Summary of Risk Assessment**

<b>Risk category</b>	<b>Impact</b>	<b>Likelihood</b>	<b>Overall Risk Level</b>
Strategic	LOW	LOW	LOW
Operational	LOW	LOW	LOW
Financial	LOW	LOW	LOW
Compliance	LOW	MEDIUM	LOW
Reputational	LOW	LOW	LOW
<b>Average risk level</b>	<b>LOW</b>	<b>LOW</b>	<b>LOW</b>

Source: OIG analysis.

## **Conclusion**

While we determined that a prior OIG recommendation, issued by the Office of Investigations, has not been fully implemented, we concluded that the overall risk of illegal, improper, or erroneous purchases is low. Our conclusion is based on the number of cardholders, the dollars involved, the known history of the program at PBGC, the existence of agency policy and procedures, maintenance of a charge card management plan, CCRD review activities, and implementation status of prior OIG recommendations. We believe the purchase card program poses a low risk to PBGC’s strategic, operational, financial, compliance, and reputational objectives, as reflected in Table 1, and does not warrant an OIG audit.

## Recommendation

We recommend that the Office of Management and Administration:

- 1. Require the Agency Program Coordinator to update the Included Template [for Merchant Category Codes] at least yearly and use additional Rules Management functionality of U.S. Bank *Payment Analytics* as appropriate. (OIG Control Number OMA-8)**

### PBGC's Response and OIG's Evaluation

**Resolved.** PBGC concurred with the recommendation. OMA stated that the PD will provide evidence of the reviews and any updates to the Included Template during FY 2018 and will work towards further documenting evidence of such reviews going forward. Related to the U.S. Bank Payment Analytics, PD will initiate a pilot program shifting responsibility for this review to the Agency Approving Officials from the APC. For this PD will provide reports, communicate expectations, and train all Agency Approving Officials on the U.S. Bank Payment Analytics reports by the end of the 4th Quarter of FY 2019. The PD Approving Official will utilize and document usage of the U.S. Bank Payment Analytics tools by the end of the 2nd and 4th Quarters of FY 2019.

Closure of this recommendation will occur when PBGC provides evidence of an annual update to the Included Template and documentation supporting ongoing use of the U.S. Bank Payment Analytics tools.

cc: Mick Mulvaney, Director, OMB  
Jeffery Donahue, Director, Procurement Department  
Frank Pace, Acting Director, Corporate Controls and Reviews Department  
Judith Starr, General Counsel  
Latrece Wade, Acting Risk Management Officer  
Department of Labor Board staff  
Department of the Treasury Board staff  
Department of Commerce Board staff

## Appendix I - 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 2018. We conducted our risk assessment work from December 2018 through February 2019.

Our risk assessment was based upon a review of purchase card policies and procedures in effect as of September 30, 2018. We interviewed the Agency Program Coordinator for purchase cards and observed her administration of the program; reviewed files capturing annual review of cardholders' purchase activities, reviewed the *Pension Benefit Guaranty Corporation Charge Card Management Plan for FY 2017*; reviewed CCRD's Report No. 2018-4001, *Limited Evaluation of Selected Purchase Card Transactions and Accounts for FY 2017*; conducted a limited review of transactions from October 1, 2017 to September 30, 2018; and followed-up on the implementation of prior OIG recommendations.

To conduct our risk assessment, we used five risk categories—financial, strategic, operational, compliance, and reputational—as defined below:

- Financial—the risk that an event related to the purchase card could occur that has a significant financial effect on the PBGC's or the Procurement Department's budget process.
- Strategic—the risk that an event related to the purchase card could impede the PBGC's or the Procurement Department's ability to achieve its mission and strategic objectives.
- 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.
- 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.
- Reputational—the risk that an internal or external event related to the purchase card could diminish the Procurement Department's or PBGC's stature, credibility, or effectiveness.

Impact is the magnitude of deficiency that could result from the risk, and likelihood is the level of possibility that a risk will occur. Our office then 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 risk using the criteria in Table 2. We then combined the impact and likelihood of individual risk category levels to arrive at an overall risk level.

**Table 2. Definitions of Risk Impact and Risk Likelihood by Level**

<b>Level</b>	<b>Risk Impact Definition</b>	<b>Risk Likelihood Definition</b>
<b>High</b>	Significant impact on current operations and long-term objectives	Highly likely to occur
<b>Medium</b>	Limited impact on current operations and long-term objectives	Likely to occur
<b>Low</b>	Minimal impact on current operations and long-term objectives	Unlikely to occur

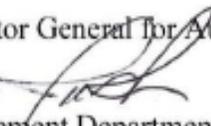
Source: OIG adapted from OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (July 15, 2016).

## Appendix II – Agency Response



February 27, 2019

To: Brooke Holmes  
Assistant Inspector General for Audits (OIG)

From: Jeffrey Donahue   
Director, Procurement Department (PD)

Subject: PBGC's Response to Recommendations in the OIG Draft Special Report – FY 2018  
Purchase Card Risk Assessment (EVAL-2019-07)

Thank you for the opportunity to comment on the OIG's draft special report, dated February 15, 2019, relating to PBGC's Purchase Card Risk Assessment. Your work on this is sincerely appreciated.

PBGC met with the representatives from the Office of the Inspector General (OIG) on February 27, 2019 to discuss the findings and recommendations. The dialogue was both informative and insightful and PBGC is grateful for the opportunity to respond to the recommendations suggested by the OIG.

PBGC has outlined in the attachment, steps it has taken, and those we will take to address the recommendations. The Point of Contact for PBGC is Steven Kvalevog, Chief, Procurement Policy. He can be reached at extension 6859 or by email at [kvalevog.steven@pbgc.gov](mailto:kvalevog.steven@pbgc.gov).

Attachment: Response to OIG Recommendations

cc: Alice Maroni, CMO  
Frank Pace, CCRD

**Response to Recommendations in the OIG Draft Special Report –  
FY 2018 Purchase Card Risk Assessment (EVAL-2019-07)**

**OIG Recommendation (OMA-8):** Require the Agency Program Coordinator to update the Included Template [for Merchant Category Codes] at least yearly and use additional Rules Management functionality of U.S. Bank Payment Analytics as appropriate.

**PBGC Response: Management Concur.**

The Procurement Department (PD) conducted reviews of the Merchant Category Codes as required by the GPC Manual and will provide evidence of the reviews and any updates to the Included Template [for Merchant Category Codes] during FY 2018. The PD will work towards further documenting evidence of such reviews going forward.

The PD will initiate a pilot program to provide reports, communicate expectations, and train all Agency Approving Officials (AO) on the U.S. Bank Payment Analytics reports by the end of the 4th Quarter of FY 2019. Effective FY 2020 all agency AO's will be required to review the U.S. Bank Payment Analytics semi-annually. The PD AO will utilize and document usage of the U.S. Bank Payment Analytics tools by the end of the 2nd and 4th Quarters of FY 2019.

**Scheduled Completion Date:** September 30, 2019