



September 25, 2020

TO: Gordon Hartogensis
Director

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Chief Management Officer

FROM: Nicholas J. Novak 
Acting Inspector General

SUBJECT: OIG Special Report: FY 2019 Purchase Card Risk Assessment
(SR-2020-12)

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. However, because of limited and delayed program oversight, we are elevating the level of risk of illegal, improper, or erroneous purchases from low to medium. We also have determined this elevated risk

warrants a separate OIG engagement of PBGC's charge card program in the near future.

OIG Assessment

PBGC Purchase Card Program Overview

According to the annual PBGC Charge Card Management Plan, dated December 2, 2019, the agency use of charge cards to purchase goods and services each year represents less than 1% of the agency's administrative budget. The purchase card metrics for FY 2019 are in Figure 1.

Figure 1. Summary of FY 2019 Purchase Card Program

Number of Cardholders	44
Number of Approving Officials	21
Total Purchase Card Expenditures	\$2,137,635

Source: OIG adapted from the U.S. General Service Administration's Statistical Reporting

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). PD also has an Alternate Agency Program Coordinator (AAPC). Each department has approving officials that provide oversight to the cardholders within their respective departments. In FY 2018, PBGC-contracted personnel reviewed purchase card records for each cardholder. The Agency Program Coordinator conducted those reviews in FY 2019.

The primary PBGC document that governed the use of purchase cards in FY 2019 was the *Purchase Card Manual*, versions dated November 30, 2018 and July 8, 2019. It 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.

PBGC Purchase Card Program Monitoring

Using the Purchase Card Manual, PD monitored the Purchase Card Program. We assessed PD's oversight and found:

- Merchant Category Code Monitoring

PBGC restricts the use of some merchant category codes (MCC or codes) to ensure certain types of goods and services cannot be bought using a purchase card. The restriction is based upon (1) MCC identified by the Agency Program Coordinator, (2) transaction frequency, and (3) conditions for use of the purchase card. If a cardholder attempts to use the purchase card with a merchant whose code has not been authorized, the transaction will be declined by US Bank.

PBGC has several MCC that are restricted. The APC provided us a list of restricted codes that have been blocked by US Bank. During our review of the MCC used during FY 2019, we found 46 codes were listed as restricted. The restrictions placed on the 46 codes did not work and purchases were made. The APC acknowledged that the restrictions were not working and stated that PD is working with US Bank. The examples of restricted MCC codes are 5735 Record Stores, 7991 Tourist Attraction and Exhibit, and 7999 Recreation Services.

- Cardholder Annual Reviews

PD conducts annual reviews of all cardholder records. These reviews evaluate purchase card transactions and utilization, and compliance with authorized spending limits. PD uses cardholder annual review checklists to conduct these annual reviews.

Records show the APC performed annual reviews (completed checklists dated February 2020) for 17 of 44 cardholders. According to the APC, she completed 37 checklists but was unable to include them in the files due to the COVID-19 outbreak in March 2020. Because these checklists were not in the files, we could not verify they were completed. Also, we noted that some of the reviewed checklists had only the APC's signature and were missing cardholders' signatures.

- Continuous Report Reviews

US Bank's merchant reporting tool is available to the APC to manage the Government Purchase Card Program. The manual states that the Daily Transaction Report and the MCC Report are particularly important and requires the APC to review these two reports monthly, and document the findings and any resulting actions taken. According to the purchase card manual, these monthly reports, along with the documented findings and actions taken shall be placed in the APC's files.

During our review, we identified certain transactions (e.g., use of restricted MCC) the APC should have addressed with PBGC cardholders and AOs after reviewing the above-mentioned U.S. Bank reports. Instead, we found the APC did not address those transactions until our engagement commenced. Also, while we found restricted MCC in the reports, the APC reviews of the reports did not contain any findings or explanations about why they were used.

- Delegation of Authority and Training

According to the Purchase Card Manual, The APC shall issue a Delegation of Authority letter to the AO upon appointment. The AO delegation of authority letter shall identify the name of each cardholder under their authority, as well as their purchase limits, and a copy of the letter shall be placed in the APC's files. All program participants must complete required training prior to appointment certifying that they understand the purchase card regulations and procedures and know the consequences of inappropriate actions. They are also required to take purchase card refresher training annually. The APC maintains a record of the training classes and apprises the purchase cardholders and AOs when refresher classes are required.

During our review, we found that one of the AOs approved over \$60,000 in purchases prior to signing the delegation letter on August 28, 2019. However, the AO acted as an approver, prior to obtaining formal delegation, for transactions posted between December 2018 through mid-August 2019.

Implementation of Prior OIG Recommendations

We also reviewed the implementation of a recommendation from the *2018 OIG Special Report: PBGC's Purchase Card Program (SR-2019-07)*. To address the recommendation, PD updated the Purchase Card Manual, documented the MCC review, tested functionality and strengthened the usage of US Bank tools. PD provided documentation to further address our recommendation and has implemented additional changes based on the recommendation. The recommendation was closed on October 25, 2019.

Results of Risk Assessment: Change from Prior Year

Based on our observations related to the use of restricted MCC codes, missing annual cardholder reviews and absence of continuous monitoring, we increased the likelihood and impact of operational, compliance, and reputational risk from low to medium. As a result, the overall risk is increased from low to medium. Figure 2 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.

Figure 2. Summary of Risk Assessment

Risk category	Impact	Likelihood	Overall Risk Level
Strategic	LOW	LOW	LOW
Operational	MEDIUM ↑	MEDIUM ↑	MEDIUM ↑
Financial	LOW	LOW	LOW
Compliance	MEDIUM ↑	MEDIUM	MEDIUM ↑
Reputational	MEDIUM ↑	MEDIUM ↑	MEDIUM ↑
Average risk level	MEDIUM	MEDIUM	MEDIUM

Source: OIG analysis

Conclusion

We elevated the overall risk of illegal, improper, or erroneous purchases from low to medium. Our conclusion is based on the limited and delayed program oversight over the purchase cards. Specifically, allowing the use of restricted MCC codes, missing annual cardholder reviews and lack of continuous report review led us to change the level of risk. We believe the purchase card program poses a medium risk to PBGC's operational, compliance, and reputational objectives, as reflected in Figure 2, and warrants a separate OIG engagement in the near future.

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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 2019. We conducted our risk assessment work from June 2020 through August 2020.

Our risk assessment was based upon the review of the purchase card program policies and procedures in effect as of September 30, 2019. We interviewed the Agency Program Coordinator and the Alternate Agency Program Coordinator. We reviewed the *Purchase Card Manual dated December 12, 2019* and the *Pension Benefit Guaranty Corporation Charge Card Management Plan*. We reviewed CCRD's Report No. 2019-4003, *Limited Evaluation of Selected Purchase Card Transactions and Accounts for FY 2019 (Appendix II)*. We reviewed cardholder files for a signed audit checklist to ensure an audit was performed. We reviewed card holder and approving official files for training certificates. We reviewed refresher training sign in sheets for card holders and approving official attendance. We compared the number of card holder, approving officials, and purchase card expenditures to the GSA Statistical report. We prepared analysis to check for split purchases, restricted and blocked MCC codes.

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 PBGCs 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 Figure 3. We then combined the impact and likelihood of individual risk category levels to arrive at an average overall risk level.

Figure 3. Definitions of Risk Impact and Risk Likelihood by Level

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

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

OMB Circular A-123 – Appendix B Revised, A Risk Management Framework for Government Charge Card Program, requires each agency to develop, issue and maintain written policies and procedures for the appropriate use of charge cards consistent with the requirements of the guidance. Unlike prior years, the PBGC Charge Card management plan is not required to be submitted to OMB. However, OMB reserves the right to request the document as needed. 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.

CCRD performed a limited evaluation of selected purchase card transactions and accounts for FY 2018 in their Report No. 2019-4003, issued on September 6, 2019. The objective of this evaluation was to provide input regarding PBGC's compliance with selected requirements of Appendix B Revised and applicable purchase card policies and procedures in place during FY 2018.

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 2018 period. CCRD identified issues related to purchase card transactions, purchase limits and delegation of authority, closing of purchase cards, APC annual review of purchase cards and the documentation of convenience checks.