



August 28, 2024

MEMORANDUM REPORT

TO: Ann Orr
Acting Director

Alice Maroni
Chief Management Officer

FROM: John Seger
Assistant Inspector General for Audits, Evaluations, and Inspections

SUBJECT: OIG Special Report: Fiscal Year 2023 Purchase Card Risk Assessment
(SR-2024-09)

The purpose of this memorandum is to inform you of the results of the Office of Inspector General's (OIG's) risk assessment of the Pension Benefit Guaranty Corporation's (PBGC's) Fiscal Year (FY) 2023 purchase card program, as required by Public Law No. 112-194, the Government Charge Card Abuse Prevention Act of 2012 (Purchase Card Act) and performed in accordance with the Office of Management and Budget Circular No. A-123, Appendix B, "A Risk Management Framework for Government Purchase Card Programs," August 27, 2019 (OMB Appendix B). The Purchase Card Act requires federal agency heads to establish and maintain safeguards and internal controls over government purchase cards. The Purchase Card Act requires each Inspector General to conduct periodic risk assessments of their agency's purchase card programs to identify and analyze the risks of illegal, improper, or erroneous purchases and payments. OIGs use this risk assessment to determine the necessary scope, frequency, and number of audits or reviews of the program.

Executive Summary

In general, PBGC's policies, procedures, and internal controls are designed to provide reasonable assurance for implementing and managing the PBGC purchase card program and to mitigate the potential for fraud and misuse. For FY 2023, we assessed PBGC's internal controls over its purchase card program and concluded that these

controls are effective. Based on our review, we determined that the risk of illegal, improper, or erroneous purchases is low.

Assessment

PBGC Purchase Card Program

The PBGC does not spend a significant amount of its funds via the purchase card compared to PBGC's overall budget. For FY2023, we noted that PBGC spent less than 1% of its administrative budget using purchase cards. The purchase card metrics for FY 2023 are:

<u>Number of Cardholders</u>	<u>35</u>
<u>Number of Authorized Officials (AO) Based in Washington D.C.</u>	<u>16</u>
<u>Total Purchase Card Expenditures</u>	<u>\$1,614,190.89</u>

Procurement Department and Monitoring

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. The APC conducts an annual program review, examining the spending trends and program process compliance for all program participants. The review focuses on some key areas to determine:

- Needs for additional training,
- Improvements in a departments' use of priority sources,
- Appropriateness of spending limits,
- Compliance of any recurring services,
- Review of MCC change requests, and
- Review of taxes paid.

The primary PBGC policy that governed the use of purchase cards in FY 2023 was the *Purchase Card Manual*, dated July 29, 2022. This policy explains application procedures, training requirements for cardholders and approving officials, purchase limits, purchase card usage restrictions, responsibilities, and administrative actions.

In addition, the manual indicates key areas that are monitored including weekend/holiday transactions, split purchases, tax purchases, merchant category codes, and monthly reconciliation of bank statements. The manual also indicates that upon termination of employees, the department provides the reason for termination, communicates the arrangement for final reconciliation, and provides a photo of the cut-up purchase card or convenience checks to the APC. We reviewed PBGC's transactions, training and other documentation to determine whether the internal controls PBGC put in place around these key areas are effective and found no issues as follows:

- Weekend/Holiday Transactions: Based on the billing/invoice date, we identified 23 cardholders who made 112 purchases valued at \$81,568.22 that potentially occurred on weekends or holidays. However, since the transaction date does not always align with the billing/invoice date-and even less so with the request and approval dates-the presence of a weekend or holiday on the transaction date does not necessarily indicate that the transaction occurred on those days. To verify the legitimacy of these transactions, we requested documentation for a sample of the highest dollar transactions to confirm they were properly approved and documented, and that they were not conducted on weekends and holidays.
- Split Purchases: We identified and examined transactions made on the same date at the same merchant by the same cardholder. Our review found that two pairs of these transactions exceeded the single purchase limit. We requested documentation to verify whether these transactions were split purchases and confirmed that they were not.
- Tax Purchases: We identified that 20 cardholders potentially paid \$3,856.63 in sales tax to 38 merchants. According to PD, US Bank sometimes list sales tax on their report for certain purchases even though receipts or statements may not show these taxes. We requested documentation for the sample transactions and confirmed that no sales tax was paid.
- Blocked Merchant Category Codes: We identified transactions involving merchants with blocked merchant category codes (MCCs) and found that 22 cardholders made 235 purchases valued at \$168,094.11 from 158 merchants whose MCCs were blocked. PD explained the procedures to allow purchases from blocked MCCs. First, a cardholder must email the APC, copying the AO, with details of the purchase and its approximate cost. If the APC approves, the MCC is temporarily unblocked. Once the transaction is

- complete, the MCC is restored to its blocked status. We reviewed documentation for the sampled transactions and confirmed that all blocked MCC codes were properly approved and subsequently restored
- Mandatory Annual Training: We reviewed the PBGC's FY 2023 mandatory purchase card training records and found that 4 of the 34 cardholders and 3 of the 15 approving officials were not listed on the FedTalent Report that we pulled. PD informed us that the individuals we identified were not cardholders or approvers during the period covered by the FedTalent Report. We requested supporting documentation from PD and confirmed that our sample selection did not include cardholders or approving officials during the timeframe of the FedTalent Report.
 - Delegation of Purchase Authority: We requested and reviewed a memo detailing the Delegation of Authority for PBGC's purchase card program. This memo specified that the approving official must review each cardholder's statement of account and reconciliation at the end of each billing cycle to confirm that all expenditures are for official PBGC business, are supported by necessary documentation, and have received appropriate approval. Additionally, we reviewed a memo outlining the Delegation of Authority for using the PBGC's purchase card program, which states that cardholders are responsible for making purchases in compliance with the PBGC's purchase card manual and are subject to periodic reviews to ensure adherence. We also identified the specified single and monthly purchase card limits outlined in a tab of the account/delegation memo.
 - Bank Reconciliations: We requested and received the documentation for monthly reconciliations of three cardholders. This documentation, saved as a PDF, included the approving official's signature page, the cardholder's signature page, the approving official's monthly bank statement (which also covers activities of other cardholders under the approving official), the cardholder's bank statement, a purchase log, purchase card requests, orders/invoices/shipping confirmations or receipts, and other related documents. We were able to reconcile and verify all transactions successfully.
 - Employee Terminations: We also requested documentation for employees who were terminated in FY 2023. PD provided five PDF files containing email correspondence about the terminations (due to separation, position changes, or other reasons for no longer needing purchase cards) and pictures of cut purchase cards. In addition, we reviewed the transaction reports and

confirmed that no transactions occurred after their separation or opt-out dates.

Purchase Card Management Plan and the Corporate Controls and Reviews Department (CCRD)

To meet the annual requirements of OMB Circular A-123 – Appendix B, Improving the Management of Government Purchase Card Programs, PBGC has the Pension Benefit Guaranty Corporation Purchase Card Management Plan for FY 2023 dated November 30, 2023. CCRD ensured responsible management officials reviewed and updated the plan incorporating any changes required by A-123. In addition, the plan was reviewed and approved by the CCRD Director, sent to PD and FOD for record, and has the plan available for OMB review. The resulting plan met the requirements and included all elements required by Appendix B pertaining to purchase cards. Maintaining a purchase 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 Purchase Card Management Plan submission to OMB, CCRD performed a limited evaluation of selected purchase card transactions and accounts for FY 2022 in their Report No. 2023-4002, issued on August 31, 2023. 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 2022.

During this effort, CCRD interviewed the responsible staff in PD, obtained the applicable Purchase Card Manual for FY 2022 that describes the policies and procedures over the use of purchase cards, inspected and analyzed data supporting card statistics, and performed testing of selected transactions and accounts relating to the FY 2022 period. As part of CCRD's limited evaluation over the agency's compliance with Appendix B, and related policies and procedures over the management of the Purchase Card Program, CCRD noted that while the program appears to have certain controls in place, CCRD identified observations and provided recommendations for improvements in the following areas:

- New Purchase Card Accounts;
- Closed Purchase Card Accounts;
- Purchases Transactions at/over the Micro-purchase limit;
- Purchase Card Transactions;
- Annual APC Review of Cardholder and Check Writer Records;

- Monitoring and Review of Delinquent Payments on Accounts;
- Monitoring of Purchase Card Transactions and Merchant Category Codes (MCCs); and
- Transactions with Convenience Checks.

Implementation of Prior OIG Recommendations

For FY 2023, no findings or recommendations related to PBGC's purchase card program were issued by our office. In FY 2022, our office conducted an evaluation of all purchase card transactions from October 1, 2018, through June 9, 2021. In the April 2022 report, *Evaluation of PBGC's Purchase Card Program*" (EVAL-2022-10; April 4, 2022), we found that the internal controls for administering PBGC's Purchase Card Program were generally adequate to prevent fraud, waste, and abuse. However, we identified several areas where internal controls over could be strengthened over the program and issued three recommendations, all of which were satisfactorily implemented and closed.

Results of Risk Assessment: Change from FY 2020

Our FY 2019 report dated September 25, 2020, operational, compliance, and reputational risks impact, likelihood, and overall risk levels were medium resulting in average risk levels to be medium. The 2020 assessment was based on our observations related to the use of restricted MCC codes, missing annual cardholder reviews and absence of continuous monitoring.

However, based on our current review of the PBGC's purchase card program, the overall risk is considered low. Figure 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.

Figure 1. Summary of Risk Assessment for FY 2023

Risk Category	Impact	Likelihood	Overall Risk Level
Strategic	LOW	LOW	LOW
Operational	LOW ↓	LOW ↓	LOW ↓
Financial	LOW	LOW	LOW
Compliance	LOW ↓	LOW ↓	LOW ↓
Reputational	LOW ↓	LOW ↓	LOW ↓
Average Risk Level	LOW ↓	LOW ↓	LOW ↓

*The arrow ↓ denotes a drop in risk from FY 2020

Source: OIG Analysis

Conclusion

For FY 2023, we assessed PBGC's internal controls over its Purchase Card Program and concluded that these controls are effective. 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 purchase card management plan, CCRD review activities, OIG limited review of purchase card transactions, 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 Figure 1.

cc: Shalanda Young, Director, OMB
Damon McClure, Director, Procurement Department
Lisa Carter, Director, Corporate Controls and Reviews Department
Karen Morris, General Counsel
Latreece Wade, Risk Management Officer
Department of Labor Board staff
Department of the Treasury Board staff
Department of Commerce Board staff

Appendix I: Objective, Scope, Methodology, and Standards

Objective

Our objective was to analyze the risks of illegal, improper, or erroneous purchases and payments associated with PBGC's purchase card program in FY 2023.

Scope

We conducted our risk assessment work from May 2024 through July 2024 in accordance with CIGIE Silver book Standards. Our risk assessment was based upon a review of purchase card policies and procedures in effect as of September 30, 2023.

Methodology

We reviewed files capturing annual review of cardholders' purchase activities, reviewed the Pension Benefit Guaranty Corporation Purchase Card Management Plan for FY 2023; reviewed CCRD's Report No. 2023-4002, Limited Evaluation of Selected Purchase Card Transactions and Accounts for FY 2022; conducted a limited review of transactions from October 1, 2022, to September 30, 2023, 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.

Applicable Professional Standards

We conducted the review under the authority of the Inspector General Act of 1978, as amended, and in accordance with the Council of the Inspectors General on Integrity and Efficiency Silver Book Quality Standards. The Council of the Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Federal Offices of Inspector General (Silver Book) contains quality standards for the management, operation, and conduct of the Federal Offices of Inspector General (OIG). The Silver Book is intended to guide the Inspector General (IG) community’s efforts.

Figure 2. Definition of Risk Impact and 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: Acronyms

Acronym	Meaning
SR	Special Report
OIG	Office of Inspector General
PBGC	Pension Benefit Guaranty Corporation
FY	Fiscal Year
OMB	Office of Management and Budget
Purchase Card Act	Government Purchase Card Abuse Prevention Act of 2012
PD	Procurement Department
APC	Agency Program Coordinator
MCC	Merchant Category Code
AO	Authorized Official
PDF	Portable Document Format

Appendix III: Staff Acknowledgements

PBGC OIG Contact

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Staff Acknowledgements

In addition to the contact above, Charles Yao, Audit Manager, David Reynolds, Audit Manager, and Yolanda Young, Senior Auditor, made key contributions to this report.

Appendix IV: Feedback

Please send your comments, suggestions, and feedback to OIGFeedback@pbgc.gov and include your name, contact information, and the report number. You may also mail comments to us:

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If you want to discuss this report or your comments with a member of the Office of Inspector General staff, please contact our office at (202) 326-4030.