




U.S. General Services Administration
Office of Inspector General

SEP 26 2016

TO: Denise Turner Roth
Administrator (A)

FROM: Carol F. Ochoa 
Inspector General (J)

SUBJECT: GSA Office of Inspector General's Fiscal Year 2015 Risk
Assessment of GSA's Charge Card Program
Memorandum Number A160054-1

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 and travel card programs. 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. If an agency has \$10 million or more in prior year travel spending, then the Inspector General is required to conduct an audit of the agency's travel card use.

As required by the Charge Card Act and OMB Memorandum M-13-21, we conducted a risk assessment of GSA's fiscal year (FY) 2015 purchase and travel card programs. 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 2015 purchase and travel card programs. Our complete methodology is described in **Appendix A**.

Summary Results

Based upon our risk assessment, we plan to conduct an audit of GSA's FY 2016 purchase card program, as well as consider performing an audit or evaluation of GSA's FY 2016 travel card program. The overall assessed levels 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

The issues presented in this year's risk assessment repeat issues previously reported in the *GSA Office of Inspector General's Fiscal Year 2014 Risk Assessment of GSA's Charge Card Program*.¹

Purchase Card Risk Assessment

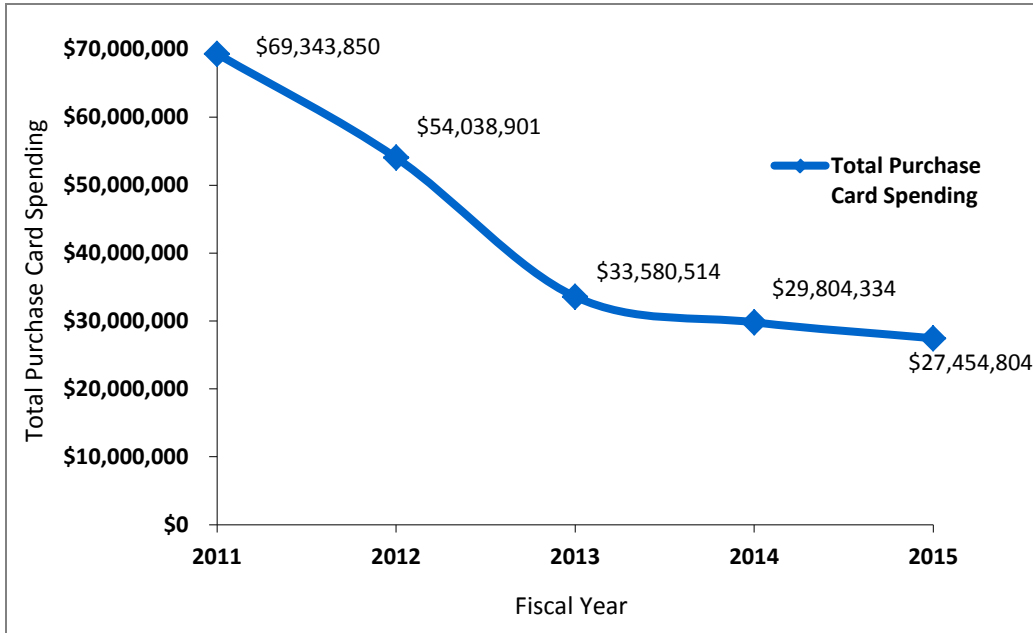
As of September 30, 2015, GSA has 804 active purchase cardholders, which accounted for approximately 7 percent of GSA's staff of 11,163 employees. This is a 13 percent decline since FY 2014 when GSA had 929 active cardholders.

In FY 2015, GSA used its purchase cards for goods, services, and contract payments totaling \$27.5 million. This represents a spending decline of 7.9 percent from the prior year. The decline in purchase card spending is a trend that has continued since 2011. *Figure 2* depicts the total dollars spent using purchase cards between FYs 2011 and 2015.

Ninety-nine percent of all transactions made during FY 2015 were under the micro-purchase threshold of \$3,000. GSA's Central Office, National Capital Region, and Mid-Atlantic Region were responsible for more than 50 percent of purchase card spending during FY 2015.

¹ Memorandum Number A150037-3, dated September 30, 2015.

Figure 2 – GSA Purchase Card Spending for FY 2011 – FY 2015



GSA has policies and procedures designed to mitigate purchase card misuse and abuse. These policies are outlined in GSA’s Charge Card Management Plan (dated January 2015) 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 terminating a purchase card; (3) explains training requirements for purchase cardholders; (4) includes recordkeeping requirements; (5) details procedures for reviewing purchase card reports; and (6) provides disciplinary procedures for employees who misuse or abuse their purchase card.

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

Transactions lack supporting documentation from cardholders and reviews by Approving Officials

GSA does not have assurance that purchase cards are used exclusively for approved and business-related goods and services because controls to support and review transactions are not performed consistently. GSA has policies in place to ensure purchase card transactions are supported and approved. GSA’s Charge Card Management Plan requires purchase cardholders to maintain supporting documents (e.g., written authorization, invoices/receipts, and independent receipt and acceptance of goods and services) in GSA’s core financial management system, Pegasys. Further,

GSA Order OAS 4200.1A, *Management and Use of the GSA SmartPay Purchase Card* (the order), requires Approving Officials to perform a monthly sample of recent transactions to verify the sufficiency and adequacy of their cardholders' supporting documentation.

However, despite these policies, purchase cardholders are not consistently loading supporting documentation in Pegasys, nor are Approving Officials consistently reviewing transactions. We selected and tested a random sample of 35 transactions under the \$3,000 micro-purchase threshold. The sample transactions were selected from the four regions with the highest total spending during FY 2015: Central Office, Mid-Atlantic, Northwest/Arctic, and National Capital. For 23 of the 35 transactions (66 percent), cardholders failed to upload the required documentation to support the purchase. We requested the missing documentation from the cardholders and Approving Officials, but were only able to obtain full support for 6 of the 23 transactions, leaving 17 transactions (49 percent) without the required documentation. Given these results, neither the documentation requirement nor the review policy is effectively enforced.

If a process was in place to ensure that all required documentation associated with purchase card transactions is captured within Pegasys and reviewed by Approving Officials, GSA would have greater assurance that purchase card transactions are valid.

Ineffective controls to identify questionable purchase card transactions

Limitations in GSA's process to detect purchase card misuse and abuse may 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 Division) runs monthly key word queries to identify questionable purchase card transactions.² In May 2015, GSA began using MasterCard's Expert Monitoring System (EMS) to run the questionable charges query.³ EMS flags purchase card transactions as questionable based on specific attributes, such as suspicious merchant descriptions, merchant category codes (MCC), or weekend purchases.⁴ Examples of key words used in this process include, but are not limited to, "race track," "casino," "QVC," and "movies." The results of these queries are compiled into an initial questionable charges report. The Charge Card Division reviews this report to determine whether the transactions are for a legitimate business need. The transactions that the Charge Card Division deems legitimate are removed from the initial questionable charges report. The Charge Card Division then sends the updated questionable charges report to the appropriate regional personnel to obtain justification for each questionable transaction identified. However,

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

³ MasterCard's EMS is a data-mining tool designed for monitoring and controlling risks associated with card spending, including fraud, waste, and abuse.

⁴ 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.

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

Using the same key word search criteria used in EMS, we performed a query of FY 2015 purchase card transactions. We compared 15 questionable transactions from our testing to the Office of Administrative Services' (OAS's) questionable charges report. EMS failed to detect 2 of the 15 transactions identified in our testing. According to an OAS manager, one of the business rules in the EMS query tool was written incorrectly and therefore, not all potential questionable charges were identified. In addition, we noted OAS's search terms are not current or reflective of today's consumer purchasing habits. For example, EMS searches for purchases of outdated gaming systems when newer systems are available.

Controls to review questionable purchase card transactions were ineffective

We examined GSA's process to resolve questionable charges to determine if GSA was taking appropriate action on the transactions identified. The resolution process is defined by the order. The order requires Regional Coordinators to coordinate with program offices to obtain detailed and precise explanations of questionable charges within 30 days of receipt of the report. The order also requires Regional Coordinators to monitor and maintain documentation of the resolution of questionable charges, but does not describe the extent of the review that should be performed.

In FY 2015, OAS identified 945 questionable charges through this process and included them on the updated questionable charges reports sent to regional personnel for justification. Regional personnel did not provide a response to OAS for 262 (28 percent) of the 945 transactions.

We could not find evidence that OAS's Charge Card Division enforced the requirement for a regional response to, or conducted an additional review of, the 262 outstanding questionable charges. When we inquired whether the Charge Card Division regularly took action to follow up on these transactions, OAS personnel stated they lacked the resources to do so. Absent sufficient follow-up activities, GSA faces increased risk that illegal, improper, or erroneous purchase card transactions will not be identified.

Further, we reviewed a sample of 15 questionable charges and found that Regional Coordinators did not perform adequate reviews of responses to OAS's questionable charges report. For 6 of the 15 transactions, OAS did not receive a response from the cardholder or an Approving Official. For the nine transactions with responses from the cardholder or Approving Official, we found:

- 2 transactions were adequately supported; and
- 7 transactions were not fully supported in Pegasys (*i.e.*, they included documentation for an unrelated purchase, or were missing an invoice, authorization, and/or proof of independent receipt and acceptance).

According to the order, Regional Coordinators are responsible for monitoring the resolution of questionable transactions. Not all Regional Coordinators have access to Pegasys to review the supporting documentation loaded into the system. Further, two Regional Coordinators we interviewed noted they do not review any supporting documentation maintained outside of Pegasys for questionable charges. In FY 2015, OAS identified \$433,804 in questionable charges. Without the proper review of these charges, OAS cannot determine whether these transactions are valid regardless of whether the proper documentation is provided.

Inadequate controls for potential split transactions

Split transactions are transactions that result from separating a single purchase into multiple transactions to circumvent procurement requirements such as the micro-purchase threshold or the transaction limits on a purchase card. Federal Acquisition Regulation (FAR) 13.003(c)(2) prohibits splitting transactions in an attempt to avoid requirements that apply to transactions above the micro-purchase threshold (\$3,000 in fiscal year 2015). In addition, the order states “Micro-purchase cardholders and warranted contracting officers are strictly prohibited from splitting purchases to circumvent their purchase card limits.” Controls to test for split transactions are required by OMB Circular A-123, Appendix B (Revised), *Improving the Management of Government Charge Card Programs*, which states that “when mitigating risks of misuse and/or delinquency, charge card managers should monitor reports to identify potential split purchases.”

We found that OAS does not perform a review of split transactions. According to OAS officials, the Charge Card Division developed and tested an EMS query to identify split transactions in February 2015. However, it determined there were too many “false positives” (*i.e.*, the query identified transactions that were not split) to continue to use the query. At the time of our inquiry, OAS advised us that it was in the process of refining the query. As a result, OAS did not use the EMS tool or any other method to identify split transactions during FY 2015.

Without well-developed processes and procedures in place to identify split transactions, GSA does not have the ability to make reasonable determinations as to whether these purchases comply with, and do not circumvent, federal procurement regulations. Implementing controls over these types of transactions could help the Agency mitigate risks and provide greater oversight over the purchase card program.

Purchase Card Program Conclusion

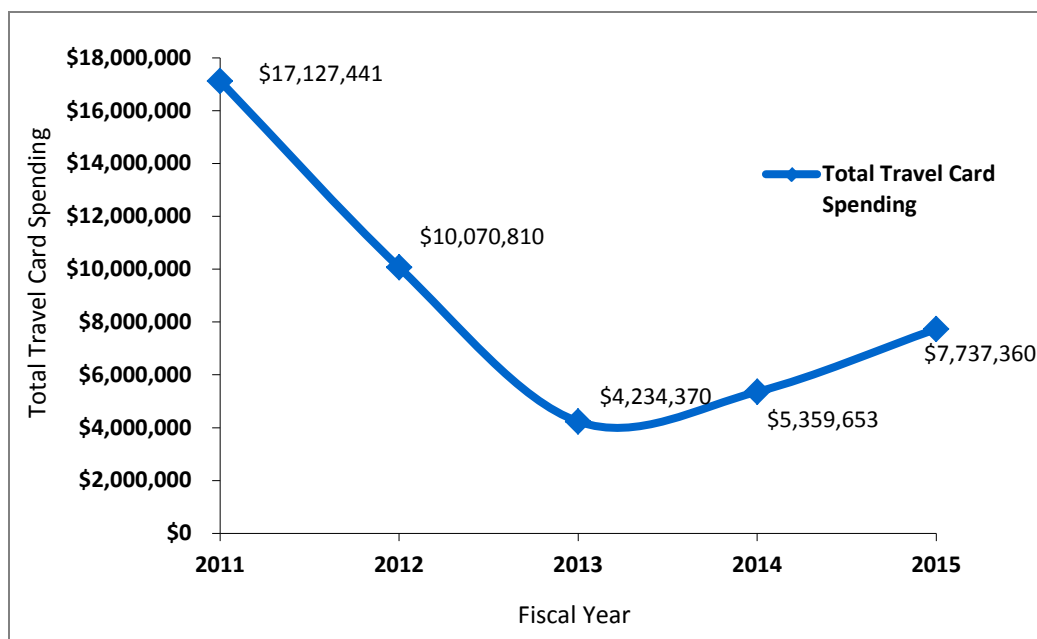
Based upon our testing, we determined that evidence exists to assess a high level of risk of illegal, improper, or erroneous purchases made through GSA’s purchase card program during FY 2015. This is consistent with our FY 2014 assessment of the purchase card program. While GSA has policies and procedures in place designed to mitigate purchase card misuse and abuse, our testing indicates that many key controls continue to operate ineffectively 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 FY 2016 purchase card program.

Travel Card Risk Assessment

As of September 30, 2015, GSA had 8,691 active travel cardholders, which accounted for approximately 78 percent of GSA's 11,163 employees. This is a 2 percent decline since fiscal year 2014 when GSA had 8,861 active travel cardholders. In FY 2015, GSA spent \$7.7 million through travel cards, an increase of 44.4 percent from FY 2014. *Figure 3* depicts the total dollars spent using travel cards between FYs 2011 and 2015. The increase in travel card spending is a trend that has continued since FY 2013.

Figure 3 – GSA Travel Card Spending for FY 2011 – FY 2015



GSA has policies and procedures in place to mitigate travel card misuse. These policies are outlined in GSA's Charge Card Management Plan dated January 2015. 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 procedures for monitoring questionable charges; (5) details procedures for reviewing purchase card reports; and (6) provides disciplinary procedures for employees who misuse or abuse their travel card.

As part of our risk assessment, we tested key controls related to the travel card program and 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 assurance that these controls are effective to

detect and prevent illegal, improper, or erroneous transactions made through the travel card program.

Transactions lack supporting documentation

GSA does not have assurance that travel cards are used exclusively for approved travel expenses due to a lack of supporting documentation within its travel management system, Concur. GSA's Charge Card Management Plan requires travel cardholders to attach receipts for all expenses over \$75 to the travel voucher in Concur. We selected a random sample of 35 individual travel card charges that exceeded the \$75 threshold and reviewed the supporting documentation in Concur. For 6 of the 35 transactions (17 percent), the required documentation was not maintained within GSA's travel management system. Instituting measures to ensure all required documentation is captured within its travel management system could provide GSA with more effective oversight for travel card transactions.

Ineffective controls to identify questionable travel card transactions

As previously reported under our assessment of the purchase card program, 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, OAS did not consistently identify related questionable transactions because the search query in EMS was written incorrectly. As a result, transactions with flagged MCCs were not always included on OAS's questionable charges reports. Improved control activities related to flagged MCCs could mitigate program risks and provide greater oversight over the travel card program.

Controls to review questionable travel card transactions were ineffective

Limitations in GSA's process to detect travel card misuse and abuse could increase the Agency's risk of making payments on illegal, improper, and erroneous travel card transactions. GSA runs monthly key word queries to identify questionable travel card transactions. GSA started using EMS to run the query in May 2015. Examples of key words used in this process include, but are not limited to, "race track," "casino," "QVC" and "movies." The results of these queries are compiled into an initial questionable charges report. The Charge Card Division subsequently reviews each transaction listed on this report in GSA's travel management system to determine whether the transactions are legitimate travel expenses. The transactions that the Charge Card Division deems legitimate are removed from the initial questionable charges report. The Charge Card Division then sends the updated questionable charges report to the appropriate regional personnel who are responsible for providing justifications for each remaining questionable transaction.

However, we found that the controls did not operate effectively. In FY 2015, GSA identified 211 questionable charges through this process and included them in the questionable charges reports sent to regional personnel for justification. Of these 211

transactions, GSA did not receive a response from regional personnel for 41 transactions (19 percent). Further, we could not find evidence that the Charge Card Division enforced the requirement for a regional response or conducted additional reviews of the 41 outstanding questionable charges.

We inquired whether the Charge Card Division regularly took action to follow-up on these transactions. Division officials noted the Division does not follow up because the travel card is an individually billed card, where managerial approval is required before payment is issued and payment of the balance of the account is the responsibility of the individual travel cardholder, not GSA. Absent follow-up activities, GSA faces increased risk of paying for illegal, improper, or erroneous travel card transactions.

Travel charge card program lacks refresher training

As previously noted in both our FY 2013 and FY 2014 charge card risk assessments, 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, GSA travel cardholders may not be aware of all current travel card program policies. Ensuring that all travel cardholders are sufficiently trained could reduce the risk of misuse and abuse of travel cards.

Travel Card Program 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 2015 travel card program. This is consistent with our FY 2014 assessment of the travel card program. While GSA has policies and procedures in place governing the travel card program, our testing indicated that controls could be strengthened to provide greater oversight of the effectiveness of the program's control environment. As a result of our risk assessment and the program's limited audit exposure, we will consider conducting an audit or evaluation of GSA's travel card program for 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 R. Nicholas Goco, Assistant Inspector General for Auditing, at 202-501-2322.

Appendix A – Risk Assessment Methodology

To complete our risk assessment of GSA's FY 2015 charge card program, we:

- Reviewed the Charge Card Act and related OMB and GSA policies;
- 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:
 - GSA's Charge Card Management Plan;
 - Training for purchase and travel cardholders, Approving Officials, and Agency Program Coordinators;
 - GSA reports related to the purchase and travel card programs;
 - Supporting documentation for purchase and travel card transactions; and
 - Monthly purchase card and travel card questionable transaction reports;
- Tested controls for a sample of purchase 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 Management Division (H1G)

Assistant Inspector General for Auditing (JA)