

UNITED STATES CONSUMER PRODUCT SAFETY COMMISSION

OFFICE OF INSPECTOR GENERAL



FY 2014 RISK ASSESSMENT OF THE CPSC'S GOVERNMENT CHARGE CARDS PROGRAM

ISSUED: 9/12/2014

The report is in response to the Government Charge Card Abuse Prevention Act of 2012 (P.L. 112-194), which requires the CPSC OIG complete a risk assessment of the CPSC's charge card programs



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Date: September 12, 2014

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FROM : Christopher W. Dentel
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SUBJECT : Risk Assessment of the CPSC's Government Charge Card Programs

On October 5, 2012, the President signed into law the Government Charge Card Abuse Prevention Act of 2012 (P.L. 112-194), which reinforced efforts to prevent waste, fraud, and abuse in Government-wide charge card programs. Consistent with existing guidance in Office of Management and Budget (OMB) Circular A-123, Appendix B, Revised, Improving the Management of Government Charge Card Programs, the Charge Card Abuse Prevention Act requires all executive branch agencies to establish and maintain internal controls for all Government-wide charge card programs.

Under the Charge Card Act, the CPSC OIG is required to:

- conduct periodic risk assessments of the CPSC's purchase cards, combined integrated card programs, and travel card programs;
- identify and analyze the risks of illegal, improper, and/or erroneous purchases and payments; and
- use these risk assessments to determine the necessary scope, frequency, and number of OIG audits or reviews of these programs.

We are also required to report to the Director of OMB 120 days after the end of each fiscal year (FY) on the CPSC's progress in implementing audit recommendations beginning with FY 2013. This reporting requirement was satisfied in a separate report.


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This report addresses the requirement that we complete a risk assessment of the CPSC's charge card programs. The CPSC uses individually issued purchase and travel charge cards with a centrally billed account (CBA) for travel. In addition, the CPSC utilizes the Government Service Administration's (GSA) fleet services charge card for GSA leased vehicles.

Our assessment found that the CPSC has not established proper policies and procedures and/or internal controls to address the requirements of the Charge Card Act. During our assessment, we were unable to estimate, reasonably, the effectiveness of the purchase card's internal controls that prevent illegal, improper, and/or erroneous transactions. Specifically, we identified inconsistencies between the CPSC's process documents (cycle memorandums) and procedural documents (internal Standard Operating Procedures). With the travel charge card, we found the existing internal control documents to be adequate; however, we identified instances where key internal controls were not fully developed and/or did not exist. Lastly, we found the fleet services charge card lacked significant internal controls and documentation to support the overall operating effectiveness of the program.

We completed audits of the purchase card and travel card programs in FY 12 and FY 13, respectively. Both audits identified internal control weaknesses, for which the OIG provided CPSC Management recommendations for corrective action. We have not audited the fleet services card within the recent past. Thus, based on the issues discovered regarding all three CPSC charge card programs and the lack of a recent audit of the fleet card program, we plan on initiating audits of the CPSC's purchase, travel, and fleet services card programs in FY 2015.

Should you have any questions, please contact me at (301) 504-7644.


Christopher W. Dentel
Inspector General

Attached: Risk Assessment Report

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EXECUTIVE SUMMARY

OBJECTIVE

Our sole objective was to analyze the risk of illegal, improper, and/or erroneous purchases made through the Consumer Product Safety Commission's (CPSC) charge card programs.

BACKGROUND

On October 5, 2012, the President signed into law the *Government Charge Card Abuse Prevention Act of 2012* (P.L. 112-194), which reinforced efforts to prevent waste, fraud, and abuse in Government-wide charge card programs. Consistent with existing guidance in Office of Management and Budget (OMB) Circular A-123, Appendix B, Revised, *Improving the Management of Government Charge Card Programs*, the Charge Card Abuse Prevention Act requires all executive branch agencies to establish and maintain internal controls for all Government-wide charge card programs.

Under the Charge Card Act, our office is required to:

- conduct periodic risk assessments of the CPSC's purchase cards (including convenience checks), combined integrated card programs, and travel card programs;
- identify and analyze the risks of illegal, improper, and/or erroneous purchases and payments; and
- use these risk assessments to determine the necessary scope, frequency, and number of OIG audits or reviews of these programs.

We were also required to report to the Director of OMB 120 days after the end of each fiscal year (FY) on the CPSC's progress in implementing audit recommendations beginning with FY 2013, with the submission due by January 31, 2014. This reporting requirement was satisfied in a separate report.

OUR CONCLUSIONS

This report addresses the requirement that we complete a risk assessment of the CPSC's charge card programs. The CPSC uses individually issued purchase and travel charge cards with a centrally billed account (CBA) for travel. In addition, the CPSC utilizes the Government Service Administration's (GSA) fleet services charge card for GSA leased vehicles. In FY 2013 through the second quarter of FY 2014, the CPSC had the following charge card use:

Charge Card Program	10/1/12 through 3/31/14 Spend Values ¹
Purchase	\$1,403,815.60
Travel (includes CBA)	\$630,422.15
Fleet	\$453,585.40
Total	\$2,487,823.15

The CPSC does not use convenience checks or integrated charge cards, so our risk assessment only addresses purchase, travel with the connected CBA, and fleet services charge cards.

Our assessment found that the CPSC has not established proper policies and procedures and/or internal controls to address the requirements of the Charge Card Act. During our assessment, we were unable to estimate, reasonably, the effectiveness of the purchase card's internal controls that prevent illegal, improper, and/or erroneous transactions. Specifically, we identified many inconsistencies between the CPSC's process documents (cycle memorandums) and procedural documents (internal Standard Operating Procedures). With the travel charge card, we found the existing internal control documents to be adequate; however, we identified instances where key internal controls were not fully developed and/or did not exist. Lastly, we found the fleet services charge card lacked significant internal controls and documentation to support the overall operating effectiveness of the program.

We completed audits of the purchase card and travel card programs in FY 12 and FY 13, respectively. Both audits identified internal control weaknesses, for which the OIG provided CPSC Management recommendations for corrective action. We have not audited the fleet services card within the recent past. Thus, based on the issues discovered regarding all three CPSC charge card programs and the lack of a recent audit of the fleet card program, we plan on initiating audits of the CPSC's purchase, travel, and fleet services card programs in FY 2015.

¹ The CPSC OIG did not audit these amounts. Therefore, we cannot attest to the accuracy and completeness of these amounts reported.

RESULTS OF ANALYSIS

SUMMARYASSESSMENT

Under the Charge Card Act, as implemented by OMB Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012*, the CPSC OIG is required to conduct periodic risk assessments of the CPSC's active Government charge card programs. To perform the assessment, we evaluated each charge card using a set of factors to determine the magnitude of risk, in conjunction with an assessment of internal controls implemented, per the CPSC's documented policies and procedures, to assist in mitigating illegal, improper, and/or erroneous transactions. Both assessments were then combined to formulate the overall risk (for more detail regarding the assignment of risk, see Appendix B, "Methodology" section). Below summarizes the results of our assessment for each charge card employed by the CPSC:

Charge Card Program	Risk Assessment Factors	Internal Control Assessment	Overall Risk
Purchase	Moderate	Adequate	Moderate
Travel (CBA included)	Moderate	Adequate	Moderate
Fleet	Moderate	Weak	High

PURCHASE CARD ASSESSMENT

We concluded that there is a moderate level of risk that illegal, improper, and/or erroneous purchases would not be prevented by the CPSC's current internal control environment. Our rationale for this assessed level of risk is set out below.

The CPSC's purchase charge card program is the largest program (in terms of annual spending) and the purchase charge card is the most used charge card in the daily operations of the CPSC. The transactions are highly variable in nature, as transactions can be as little as \$.01 or as high as \$2500.00 and can occur for various reasons and serve many purposes. The Government purchase charge card program has historically garnered much negative attention. Both, the OIG and the Government Accountability Office (GAO) have long issued reports documenting their findings of fraud and abuse in a variety of agencies, large and small, across the Federal Government. Thus, it is important that agencies establish strong internal controls to not only prevent, but also detect and/or correct fraud and abuse when they do occur.

We last audited the CPSC's purchase charge card program in FY 2012. In that audit we found inadequate internal controls, which resulted in noncompliance with the CPSC's internal policies and procedures, as well as, Government-wide policies and procedures. Since that audit, the CPSC has made significant strides in improving the purchase charge card program through automation and the strengthening of internal controls. However, in our assessment of internal controls, we found that the CPSC has not completely established proper policies and procedures and/or internal controls to address the requirements of the Charge Card Act. Specifically, in our review of the CPSC implementation of the 17 Charge Card Act compliance requirements applicable to CPSC, the CPSC did not have consistent policy and procedure documentation to support the implementation of the required internal controls, as follows:

- Five instances where the CPSC Card Management Plan reported internal controls to OMB, as effect; however, the policy and procedure documentation to evidence the implementation of the internal controls did not exist.
- One instance where the CPSC documented the existence of an internal control, but did not document a process on how to perform the internal control.
- One instance where the compliance internal control stipulated by the Charge Act, was not addressed in any policy and procedure documentation.

Further, we found inconsistencies regarding the documentation of key internal controls. In several instances, the internal controls as set-out in the corresponding process memos (a description of internal controls designed/implemented) and the correlating standard operating procedures (a description of internal controls in operation) were inconsistent. As a result of these inconsistencies we were not able to estimate, reasonably, the effectiveness of the purchase card's internal controls at preventing illegal, improper, and/or erroneous transactions.

Other factors that contributed to our assessment of increased risk included past program performance and audit findings, the significance of the program to the CPSC, management/staff experience, and our assessment of the overall documented policies and procedures. With these factors and the internal control documentation issues noted, we conclude that the program lacks a comprehensive set of internal controls to reduce risk to the lowest level.

TRAVEL CARD ASSESSMENT

We concluded that there is a moderate level of risk that illegal, improper, and/or erroneous use of the travel card would not be prevented by the CPSC's current internal control environment. Our rationale for this assessed level of risk is set out below.

The CPSC's travel charge card program is the second largest program (in terms of annual spending) and use. The use of the travel charge card is limited to expenses directly related to official government travel. Travel charge cards are issued to individual employees, but the CPSC also uses a CBA to procure all common carrier cost associated with official travel.

Similar to the purchase charge card, transactions on the travel card are highly variable in nature. However, unlike the purchase card program's \$2,500 cap, they are not limited to a maximum dollar value per transaction. Also like the purchase charge card, the travel charge card program has garnered public attention due to Government-wide reports of fraud and abuse. Hence, the GSA and the contracted commercial banks have put in place various internal controls to assist agencies in monitoring transactions. Yet again, it is important that agencies establish strong internal controls, particularly regarding oversight and training, to not only prevent, but also detect and/or correct, when these instances do occur.

We completed an audit of the CPSC's travel charge card program in FY 2013, in which we found inadequate internal controls, which led to actual misuse of the charge card and noncompliance with Government-wide policies and procedures. Since that audit, the CPSC has significantly improved its travel charge card program through training, automation and strengthening the internal control; however, the OIG has not audited these changes. Despite the improvement noted above, in our assessment of internal controls, we found that the CPSC has not established adequate policies and procedures and/or internal controls to completely address the requirements of the Charge Card Act. Specifically, of the 13 Charge Card Act compliance internal control requirements applicable to the CPSC, the CPSC did not develop policies and procedures to support the implementation of the required internal controls in five of the areas required by the

act. In all instances, documented policies or procedures did not exist; therefore, we concluded that the internal controls have not been adequately designed or implemented.

Other factors that contributed to our assessment of increased risk included past performance and audit findings, the significance of the travel card program to the CPSC, and management/staff experience. Taking these factors and the failure to establish all key internal controls into account, we conclude that the program lacks the ability to reduce risk to the lowest level.

FLEET CARD ASSESSMENT

We found that there is a high level of risk that the CPSC's current internal control environment over the use of the fleet service card will not prevent illegal, improper, or erroneous purchases. The following discusses our rationale for this assessed level of risk:

The CPSC's fleet services charge card program is the smallest program (in terms of annual spending) and use. The transaction activity of the fleet service charge card is highly variable, as official government travel needs change frequently. However, the program presents a higher level of inherent risk to the CPSC, as government assets of higher dollar value, more often than not, have a greater chance of being circumvented for personal use. In response to this risk, the GSA has established internal controls to monitor fleet service charge card activity, but it is still the CPSC's responsibility to establish internal controls to mitigate any further risk. Thus, it is imperative that the CPSC have sufficient internal controls, particularly monitoring and oversight, in place to mitigate the risk of illegal, improper, and/or erroneous transactions.

We have not audited the fleet services card program in the recent past. Nonetheless, we found the fleet services charge card program lacks significant internal controls and documentation to support the overall operating effectiveness of the program and to address the requirements of the Charge Card Act. Specifically, of the four Charge Card Act compliance internal control requirements applicable to the CPSC, the CPSC did not develop policy and procedure documentation to support the existence and implementation of internal controls. Therefore, we concluded internal controls have not been established.

Additional factors that contributed to our assessment of increased risk included time past since the last audit, past program performance, the significance of the program to the CPSC, management/staff experience, and our overall assessment of the documented policies and procedures. With these factors and the nonexistent internal control structure, we conclude that the program lacks the ability to reduce risk to the lowest level.

FINAL CONCLUSION

The CPSC OIG understands that not all risk can be mitigated through internal controls as there will always be ways to circumvent internal controls. However, internal controls are, as identified in the Charge Card Act, the primary means to reduce risk to the lowest possible level. Thus, the first step in this process is establishing internal controls that are clearly documented and reinforced by management through continuous monitoring and by holding staff accountable deviating from the appropriate operation of internal controls. The CPSC has made significant strides to reduce risk in the purchase and travel charge card programs, but still needs to establish additional internal controls and documentation in these areas. Substantial work is needed to improve the fleet services charge card program.

Based on the overall levels of risk assessed and the aforementioned issues discovered regarding all CPSC charge cards in use and the unaudited fleet card program, we anticipate initiating audits of the CPSC's purchase, travel, and fleet charge card programs in FY 2015.

APPENDIX A: BACKGROUND,

BACKGROUND

On October 5, 2012, the President signed into law the *Government Charge Card Abuse Prevention Act of 2012* (P.L. 112-194), which reinforced efforts to prevent waste, fraud, and abuse in Government-wide charge card programs. Consistent with existing guidance in the OMB Circular A-123, Appendix B, Revised, *Improving the Management of Government Charge Card Programs*, the Charge Card Act requires all executive branch agencies to establish and maintain internal controls for all Government-wide charge card programs. As such, the OIG is required to conduct periodic risk assessments over Government-wide charge card programs. The purpose of the risk assessment, as explicitly stated in the Act is to, “. . . analyze the risks of illegal, improper, and erroneous purchases . . . “being made on agency purchase cards.” The Act further requires that the OIG use these risk assessments, “. . . to determine the necessary scope, frequency, and number of OIG audits or reviews of these programs.”

Currently, the CPSC utilizes the purchase, travel (with CBA), and fleet services charge cards, provided by the GSA. The use of these cards is part of the GSA SmartPay Program that manages a set of master contracts with various commercial banks, through which agencies and organizations, such as the CPSC, can obtain charge cards for employees to accomplish the agency’s mission. Each card has its own set of government wide policies and procedures established by GSA and OMB; as well as, policies and procedures established by the customer agency, to mitigate further the risk illegal, improper, and/or erroneous transactions.

Purchase Card

The use of purchase charge cards streamlines the federal acquisition processes by providing a low-cost, efficient vehicle for obtaining goods and services directly from vendors. The Federal Acquisition Regulations (FAR) limits purchases directly from vendors to a “micro purchase” threshold for most items at \$3,000.² However, the CPSC’s purchase charge card micro-purchase limit is currently set at \$2,500. The circulation of this limit and other mandatory CPSC policies and procedures ensues through a CPSC directive and handbook – both available on the CPSC’s intranet. All the CPSC’s purchase cardholders are required to comply with this directive and handbook.

The CPSC’s FMFS administers the purchase card program. Their duties include establishing internal controls, training, and oversight of purchase charge card transactions. FMFS has designated one Accountant, as the Agency Program Coordinator (APC). Specifically, the APC manages the administration of the program and functions as the liaison between the CPSC, the charge card bank provider, U.S. Bank, and the GSA. The APC is also responsible for program compliance, program audits, and program training monitoring.

Travel Card

The Travel and Transportation Reform Act of 1998 (P. L. 105-264), requires federal employees to use travel charge cards for all payments of expenses related to official government travel, including hotels, transportation costs, and meals. By consolidating travel expenditures with a

² FAR Part 13.301 authorizes the use of the purchase card to make “micro-purchases.” FAR Part 2.101 sets the micro-purchase threshold at \$3,000 for most items.

single card vendor, and by streamlining the process for advancing travel funds to federal employees, agencies reduce administrative costs associated with processing federal travel.

The GSA issues the Federal Travel Regulations (FTR) that implements legal requirements and Executive Branch policies for travel by federal civilian employees and others authorized to travel at government expense. The FTR's intent is to interpret legal and other policy requirements in a manner that balances on the one hand, the need to guarantee responsible official government travel, against the need to lessen administrative costs, on the other hand.

U.S. Bank also provides the travel charge card for the CPSC, in which the CPSC's FMFS also administers the program, with the assistance of a formal CPSC directive. The personnel assigned to administer the program and perform oversight duties, are identical to those required under the purchase card program.

Fleet Services Card

The GSA Fleet provides fleet services charge card with each leased vehicle for the purchase of fuel and minor maintenance. This charge card program offers widespread acceptance for customer drivers as well as innovative technology behind-the-scenes to help GSA Fleet control costs, such regular maintenance and fuel cost.

The CPSC uses the fleet services card at the CPSC's headquarters and warehouse locations, as well as, throughout the United States, by the Office of Compliance and Field Operations (EXC) Field investigators. The Division Field Investigations (CFI) administers and monitors the fleet services charge cards for EXC and has assigned two Administrative Officers with monitoring and oversight duties. The CPSC's EXFS monitors the fleet cards for the headquarters and warehouse locations, but the performance of monitoring and oversight is concentrated to one employee, the Facilities Specialist. All personnel designated for administering the fleet service charge cards are responsible for maintaining vehicle mileage records, serving as point of contact for vehicle deliveries, and reconciling charge card transactions to the related CBA. They are also responsible for providing training to all cardholders and ensuring that all cardholders are aware of the CPSC's directives related to fleet cards.

APPENDIX B: OBJECTIVE, SCOPE & METHODOLOGY

OBJECTIVE

Our sole objective was to analyze the risk of illegal, improper, and/or erroneous purchases made through the CPSC's charge card programs.

SCOPE

The scope of our assessment was limited to charge card activity from October 1, 2012 to March 31, 2014 that occurred on the CPSC's purchase, travel (including the CBA), and fleet service charge cards. Table 1 below indicates the spending value and number of open accounts for each card subject to the assessment:

Table 1

Charge Card Program	10/1/12 through 3/31/14 Spend Values³	Number of open accounts:
Purchase	\$1,403,815.60	166
Travel	\$251,422.88	135
CBA	\$378,997.27	1
Fleet	\$453,585.40	96
Total	\$2,487,823.15	398

The CPSC's FMFS administers the purchase and travel cards. Alternatively, the CPSC's EXFS and EXC administer the fleet service charge cards. All CPSC charge card holders located at the CPSC's headquarters in Bethesda, Maryland, the CPSC's National Product Testing, and Evaluation Center in Rockville, Maryland, and field locations throughout the United States, were included in the scope of the assessment. Our work took place from July 2014 through August 2014.

METHODOLOGY

This assessment was not an audit, therefore not performed in accordance with generally accepted government auditing standards. To accomplish our objectives, we obtained an understanding of each charge card process that included initiating a new account, using the cards for purchases, the performance of oversight over transactions by the CPSC and closing accounts. Our methodology primarily involved gathering and reviewing sufficient documentation and interviewing key personnel from FMFS, EXFS, and EXC, who are responsible for the management and oversight of the CPSC's charge card programs. The documentation that we obtained included:

- CPSC policies and procedures and/or Standard Operating Procedures related to charge cards
- CPSC Cycle Memorandums covering charge cards
- CPSC US Bank Task Order(s) for 2012 and 2013
- CPSC's Annual Charge Card Management Plans for 2012 and 2013
- Reports of delinquent Charge Accounts

³ The CPSC OIG did not audit these amounts. Therefore, we cannot attest to the accuracy and completeness of these amounts reported.

- Reports of disciplinary actions against CPSC employees regarding the use of charge cards
- Prior OIG Reports and investigations involving charge cards
- Current Corrective Action Plans on prior OIG Recommendations

Our purpose in reviewing relevant documentation and interviewing key personnel was to gain a sufficient understanding of the various charge card processes to identify areas of risk, key internal controls (or lack thereof) to mitigate those risks, and other factors that can contribute to risks of illegal, improper, and/or erroneous purchases or payments. From this understanding, we reasonably estimated the operating effectiveness of internal controls, compliance with the CPSC governing policies and procedures, and compliance with applicable Federal laws, regulations, and provisions to conclude on overall risk. We concluded on the overall risk by evaluating each charge card (exclusive of one another) using a set of factors to determine the magnitude of risk, in conjunction with an assessment of internal controls implemented, per the CPSC’s documented policies and procedures, to assist in mitigating illegal, improper, and/or erroneous transactions. Specifically, we defined and used the following factors that could contribute to the risk of illegal, improper, and/or erroneous charge card transactions by the CPSC:

- Previous Audit Findings
- Time Since Last Audit
- Importance of Program to Agency Operations (Strategic Risk)
- Funds Expended (Financial Risk)
- Past Program Performance & Effectiveness (Performance Risk)
- OMB, GAO, & Legislative Concerns (Political Risk)
- Age/Maturity of Program(s)
- Management and Staff Experience & Competency
- Documented Policies & Procedures
- Complexity of IT Systems & Interfaces

The combination of both, the risk factors (as indicated above) and the assessment of internal controls, determined the overall risk. Table 2 below details the Risk Assessment Matrix used to formulate overall risk:

Table 2

		Internal Controls		
		<i>Strong</i>	<i>Adequate</i>	<i>Weak</i>
Risk Factors	<i>High</i>	Moderate	High	High
	<i>Moderate</i>	Low	Moderate	High
	<i>Low</i>	Low	Low	Moderate

APPENDIX C: ACRONYMS & ABBREVIATION

APC	Agency Program Coordinator
CBA	Centrally Billed Account
CFI	Division of Field Investigations
CPSC	Consumer Product Safety Commission
EXC	Office of Compliance and Field Operations
EXFS	Office of Facility Services
FAR	Federal Acquisition Regulations
FMFS	Office of Financial Services
FTR	Federal Travel Regulations
FY	Fiscal Year
GAO	Government Accountability Office
GSA	Government Service Administration
OIG	Office Of Inspector General
OMB	Office of Management and Budget