



OFFICE OF INSPECTOR GENERAL
U.S. Agency for International Development

Assessment of MCC's FY 2019 Charge Card Programs Identified a Moderate Risk of Improper Purchases and Payments

REPORT 0-MCC-20-013-C
SEPTEMBER 25, 2020

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Office of Inspector General, U.S. Agency for International Development

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MEMORANDUM

DATE: September 25, 2020

TO: Millennium Challenge Corporation, Vice President, Department of Administration and Finance, Chief Financial Officer, Ken Jackson

FROM: Deputy Assistant Inspector General for Audit, Alvin Brown /s/

SUBJECT: Assessment of MCC's FY 2019 Charge Card Programs Identified a Moderate Risk of Improper Purchases and Payments (0-MCC-20-013-C)

Enclosed is the final report on the risk assessment of the Millennium Challenge Corporation (MCC) charge card programs for fiscal year (FY) 2019. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP (CLA) to conduct the engagement. The contract required CLA to perform the engagement in accordance with generally accepted government auditing standards; Government Charge Card Abuse Prevention Act of 2012, Public Law 112-194; and Office of Management and Budget (OMB) Circular No. A-123, Appendix B, a Risk Management Framework for Government Charge Card Programs.¹

In carrying out its oversight responsibilities, OIG reviewed the audit firm's report and related documentation and inquired of its representatives. The audit firm is responsible for the enclosed auditor's report and the conclusions expressed in it. We found no instances in which CLA did not comply, in all material respects, with applicable standards.

The engagement objective was to assess the risks of illegal, improper, and erroneous purchases and payments in MCC's FY 2019 charge card programs. To answer the objective, CLA analyzed and tested MCC's internal controls over its charge card programs from October 1, 2018, to September 30, 2019. Charge card disbursements during this period totaled \$3,717,235.

The audit firm concluded that MCC's charge card programs identified a moderate risk of illegal, improper, or erroneous purchases and payments in FY 2019. This assessment of moderate risk

¹ OMB Circular A-123, Appendix B, "A Risk Management Framework for Government Charge Card Programs" (Aug. 27, 2019) replaced previously issued Appendix B, "Improving the Management of Government Charge Card Programs" (Jan. 15, 2009) and OMB Memorandum M-13-21, "Implementation of the Government Charge Card Abuse Prevention Act of 2012" (Sept. 6, 2013).

remains unchanged from last year's assessment. CLA's detailed testing of the purchase and travel card transactions identified internal control deficiencies and noncompliance with MCC's Charge Card Program Standard Operating Procedures, MCC's Individually Billed Account Travel Charge Card Policy, and MCC's Temporary Duty Travel Policy and Procedures.

In addition, CLA's testing results for FY 2019 travel card transactions identified noncompliance with the Federal Travel Regulation and OMB Circular A-123, Appendix B, that CLA determined were quantitatively insignificant, but that qualitatively increased the risk of illegal, improper, or erroneous use in the MCC travel card program. For example, a travel cardholder for 3 of 35 sampled travel card transactions claimed travel or cash advance expenses that were excessive, recurring on multiple trips, and unsupported by valid business needs. In addition, travel expenses were claimed for weekends when the travel cardholder timesheets reported no hours worked. These expenses were reimbursed without adequate due diligence review or control. The sample error rate based on the amount tested was less than 1 percent (\$1,382 out of the \$327,776 sample population). Further, for 3 of 35 sampled travel card transactions, waste in travel expenses was incurred and paid to travel cardholders due to ineffective planning of onboarding/new assignment training and lodging. The sample error rate based on the amount tested was 13.8 percent (\$45,291 out of the \$327,776 sample population).

The auditors made four recommendations to help strengthen MCC's internal controls over its charge card programs. To address the weaknesses identified in the report, we recommend that MCC's Chief Financial Officer:

Recommendation 1. Develop and document a mechanism to hold travelers accountable for all cash advances.

Recommendation 2. Establish and require all MCC personnel to obtain training on MCC's internal policy on use of travel cards and allowable expenses for travel.

Recommendation 3. Enforce MCC's travel policy to require travelers to obtain and retain receipts for all applicable and relevant travel expenses incurred and readily produce receipts upon request by MCC.

Recommendation 4. Develop and document a mechanism to ensure training and lodging with relation to on boarding/new assignment processes are effectively pre-planned to eliminate unnecessary Temporary Duty Travel expense, including pre-scheduling and confirming availability of trainings prior to the traveler undertaking travel.

In finalizing the report, the audit firm evaluated MCC's responses to the recommendations. After reviewing that evaluation, we consider recommendations 1 through 4 resolved, but open pending completion of planned activities. For recommendations 1 through 4, please provide evidence of final action to OIGAuditTracking@usaid.gov.

We appreciate the assistance provided to our staff and the audit firm's employees during the engagement.

**Millennium Challenge Corporation's Charge Card Programs
Pose a Moderate Risk of Illegal, Improper, or Erroneous
Purchases and Payments**

Fiscal Year 2019

**Performed by
CliftonLarsonAllen LLP**

**For
United States Agency for International Development
Office of Inspector General**

September 22, 2020

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Millennium Challenge Corporation's Charge Card Programs Pose a Moderate Risk of Illegal, Improper, or Erroneous Purchases and Payments

EXECUTIVE SUMMARY

Why CLA Did This Audit

CliftonLarsonAllen LLP (CLA), was engaged by the United States Agency for International Development (USAID) Office of Inspector General (OIG) to perform a risk assessment and performance audit of Millennium Challenge Corporation's (MCC's) Charge Card Programs for the period October 1, 2018 to September 30, 2019 (FY 2019). The *Government Charge Card Abuse Prevention Act of 2012* (Charge Card Act), Public Law 112-194, and the Office of Management and Budget (OMB) Circular No. A-123, Appendix B, *A Risk Management Framework for Government Charge Card Programs* requires the OIG to perform an annual risk assessment. The purpose of this assessment is to analyze the risks of illegal, improper, or erroneous purchases and payments in MCC's charge card programs. MCC's charge card programs include the purchase card and travel card programs. USAID OIG uses the results of the risk assessment in determining the necessary scope, frequency, and number of OIG analyses or audits of these programs.

We performed the risk assessment in accordance with performance audit standards as defined in *Generally Accepted Government Auditing Standards* (GAGAS). Our performance period was from February 2020 through August 2020.

What CLA Concluded

Based on the risk assessment and performance audit, we determined that MCC's two charge card programs, comprising of the purchase cards and travel cards, pose a moderate risk of illegal, improper, or erroneous purchases and payments. The results of our risk assessment should not be interpreted to conclude that the charge card programs with moderate risk are free of illegal, improper, or erroneous purchases and payments. Likewise, a high risk in the charge card programs should not be interpreted to indicate actual or known illegal, improper, or erroneous purchases and payments.

CliftonLarsonAllen LLP

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**Arlington, VA
September 22, 2020**

PROGRAM BACKGROUND

On October 5, 2012, the President signed into law the *Government Charge Card Abuse Prevention Act of 2012* (Charge Card Act), Public Law (P.L.) 112-194, which reinforced the Administration's efforts to prevent fraud, waste, and abuse of Government-wide charge card programs.

OMB Circular No. A-123, Appendix B, *A Risk Management Framework for Government Charge Card Programs*, lists the following aspects of compliance with the Charge Card Act:

1. Agency's required safeguards and internal controls;¹
2. Agency and OIG reports of purchase card violations;² and
3. OIG's risk assessments and analyses or audits.³

OBJECTIVE, SCOPE AND METHODOLOGY

Objective:

The objective of the risk assessment is to assess the risks of illegal, improper, and erroneous purchases and payments in MCC's charge card programs for USAID OIG to determine the necessary scope, frequency, and number of OIG analyses or audits of these programs.⁴

Scope:

CLA assessed the charge card programs as implemented in FY 2019. MCC's charge card programs include purchase card and travel card programs. MCC does not have an integrated card program.⁵ MCC's total purchase card spending was less than \$10 million in FY 2019. Accordingly, the Agency and OIG semi-annual Joint Purchase Card Violation Report reporting requirement is not applicable to MCC.

Table I shows the total number of charge cardholders and the total spending in FY 2019 for each charge card program. MCC discontinued its fleet card program in FY 2019 and there were no fleet cardholders or spending.

¹The Charge Card Act requires all executive branch agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts.

²The requirement for the agency head and OIG to submit a semi-annual Joint Purchase Card Violation Report for submission to OMB is only applicable to agencies with more than \$10 million in purchase card spending in the prior fiscal year.

³ Analyses or audits for purchase cards are required only for agencies with more than \$10 million in prior year purchases. For travel cards, analyses or audits are required only for agencies with \$10 million in prior year travel spending. Each IG should perform an annual purchase card risk assessment. These risk assessments shall guide analyses or audits as necessary.

⁴ As part of the risk assessment, we conducted a performance audit of MCC's charge card programs for FY 2019.

⁵ The integrated card is a combination of two or more business lines on a single card, e.g., purchase and travel.

Table 1: FY 2019 Number of Charge Cardholders and Spending

Charge Card Program	Number of Cardholders	FY 2019 Disbursements (Rounded)
Purchase	20	\$470,982
Travel	309	\$3,246,253
Total	329	\$3,717,235

There were two account types within the GSA SmartPay Program⁶ that MCC's cardholders participated in:

1. Centrally Billed Accounts (CBAs) – are established by the agency to pay for official purchases, travel and travel related expenses. Payments are made directly to the bank by the Federal Government.
2. Individually Billed Accounts (IBAs) – are issued to employees to pay for official travel and travel related expenses. Payments are made directly to the bank by the individual.

Our risk assessment included the CBAs but did not include the IBAs due to the fact that the majority of travel transactions are the liability of the individual cardholder, and not the Federal Government.⁷ Employee's business travel expenses using the IBA travel cards are reimbursed by MCC through the normal process of submitting travel vouchers.

Methodology:

CLA conducted risk assessments of the purchase card and travel card programs using a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis.

- We reviewed the strengths (S) and weaknesses (W) in the design and the operating effectiveness of the purchase card and the travel card programs' internal controls based on industry standards.
- We identified and evaluated opportunities (O) to establish controls in the purchase and travel card programs; (e.g., third party system controls; merchant codes; and daily, weekly, or monthly charge card spending limits).
- We identified and evaluated the threats (T) to the purchase and travel card programs, their likelihood to occur, and their impact quantitatively and qualitatively.

We conducted the risk assessment in accordance with performance audit standards as defined in *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our engagement to obtain sufficient,

⁶ Established in 1998, the GSA SmartPay Program is the world's largest government charge card and commercial payment solutions program, providing services to more than 560 Federal agencies, organizations, and Native American tribal governments. GSA SmartPay payment solutions enable authorized government employees to make purchases on behalf of the Federal Government in support of their agency/organization's mission.

⁷ See OMB Circular Circular No. A-123, Appendix B, Section 5.3.3. Reports on Violations.

appropriate evidence to provide a reasonable basis for our conclusions based on our objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our objective.

As part of the risk assessment, we:

- Read and understand the requirements of the following applicable laws and regulations:
 - Charge Card Act
 - OMB Circular No. A-123, Appendix B, A Risk Management Framework for Government Charge Card Programs
 - 49 U.S.C 40118, Fly America Act – requiring Federal travelers to use United States (U.S.) air carrier service for all air travel services funded by the U.S. government
 - MCC Charge Card Program Standard Operating Procedures (2017 version)
 - MCC Charge Card Management Policy (May 2012 version)
 - MCC Individually Billed Account Travel Charge Card Policy (August 2017 version)
 - MCC Travel Office Procedures and Handbook (April 2019 version)
 - MCC Temporary Duty Travel Policy and Procedures (July 2012 version)
- Obtained an understanding of MCC internal controls over its charge card programs and evaluated the design and operating effectiveness of relevant purchase and travel authorizations and payment controls.
- Reviewed OMB A-123, Appendix B test results performed by MCC in FY 2019.
- Ensured that MCC purchase cards and travel cards disbursements data used in our analysis were complete by reconciling it to the disbursement amount reported in the government-wide account statement for FY 2019.
- Analyzed the purchase and travel cards' data attributes to assess the effectiveness of the design of their internal controls.
- Reviewed the FY 2019 Agency Financial Report (AFR) auditors' report and the report on internal control over financial reporting for weaknesses in travel and purchase card programs.
- Judgmentally selected a sample of 15 purchase cards and 35 travel cards transactions for FY 2019 and reviewed related supporting documentation for those transactions, and considered the strengths and weaknesses in MCC's internal controls.

RESULTS

MCC had 329 cardholders in FY 2019. Out of the 329 cardholders, 13 employees had both a purchase card and a travel card.

The purchase card program had 20 cardholders. All charges made on the 20 purchase cards were billed to one CBA. The travel card program had 309 cardholders. All charges made on the 309 travel cards were IBAs except for employee business travel airfares which were billed to one CBA.

We sampled and tested 50 out of 3,721 transactions from MCC's total charge card disbursements in FY 2019 as shown in Table 2.

Table 2: Distribution of Sample Size Tested

Charge Card Program	Sample Count	Total Amount of Sample Tested (Rounded)	FY 2019 Total Number of Transactions	FY 2019 Total Disbursements (Rounded)	Percentage of Disbursements to Total Disbursements (Rounded)
Purchase	15	\$50,662	738	\$470,982	13%
Travel	35	\$327,776	2,983	\$3,246,253	87%
Total	50	\$378,438	3,721	\$3,717,235	100%

Our detailed testing of the travel card transactions identified noncompliance with the Federal Travel Regulations, OMB Circular A-123, Appendix B and waste that though are quantitatively de-minimis, the identified noncompliance qualitatively increase the risk of illegal, improper, or erroneous use in the MCC travel card program. These exceptions are included in Appendix I. Management's response is presented in Appendix II. We did not audit MCC's response and, accordingly, we express no opinion on it.

In addition, our detailed testing of the purchase and travel card transactions identified internal control deficiencies and noncompliance with MCC's Charge Card Program Standard Operating Procedures, MCC's Individually Billed Account Travel Charge Card Policy, and MCC's Temporary Duty Travel Policy and Procedures that we communicated separately to MCC.

CONCLUSION

Based on the procedures performed, we determined that MCC's two charge card programs comprising of the purchase cards and travel cards pose a moderate risk of illegal, improper, or erroneous purchases and payments. The results of our risk assessment should not be interpreted to conclude that the charge card programs with low risk are free of illegal, improper, or erroneous purchases and payments. Likewise, a high risk in the charge card programs should not be interpreted to indicate actual or known illegal, improper, or erroneous purchases and payments.

APPENDIX I
Fiscal Year 2019 Travel Card Testing Exceptions

Travel Card (TC) Testing

We judgmentally selected 35 out of 2,983 travel card transactions that accounted for \$327,776 out of the total travel card cost of \$3,246,253. We tested both the airfare and travel costs for each traveler and noted the following non-compliance issues:

TC Exception 1: For 3 of 35 travel card transactions, sample error rate: less than 1 percent (\$1,382 out of \$327,776 sample population), travel/cash advance expenses claimed by a cardholder were excessive, recurring on multiple trips, and unsupported by valid business needs. In addition, travel expenses were claimed for weekends when the cardholder traveler's timesheets reported no hours worked. These expenses were reimbursed without adequate due diligence review/control.

Criteria: Federal Travel Regulation, Sections 301-70.300 and 301-71.203, states,

§301-70.300 - How should we administer the authorization and payment of miscellaneous expenses?

You should limit payment of miscellaneous expenses to only those expenses that are necessary and in the interest of the Government.

§301-71.203 - Who is responsible for the validity of the travel claim?

The certifying officer assumes ultimate responsibility under 31 U.S.C. 3528 for the validity of the claim; however:

- a) The traveler must ensure all travel expenses are prudent and necessary and submit the expenses in the form of a proper claim;*
- b) The authorizing/approving official shall review the completed claim to ensure that the claim is properly prepared in accordance with regulations and agency procedures prior to authorizing it for payment.*

TC Exception 2: For 3 of 35 travel card transactions, sample error rate: 13.8% (\$45,291 out of \$327,776 sample population), waste in travel expense were incurred and paid to cardholder travelers due to ineffective planning of onboarding/new assignment training and lodging.

Criteria: OMB Circular A-123, Appendix B (Revised 8/27/19), A.1 Glossary, states,

Waste: *Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose. For the purposes of this Guidance, waste is any activity taken with respect to a government charge card that fosters, or results in, unnecessary costs or other program inefficiencies.*

APPENDIX I
Fiscal Year 2019 Travel Card Testing Exceptions

Corrective Actions Recommended:

We recommend MCC to:

1. Develop and document a mechanism to hold travelers accountable for all cash advances.
2. Establish and require all MCC personnel to obtain training on MCC's internal policy use of travel cards and allowable expenses for travel.
3. Enforce MCC's travel policy to require travelers to obtain and retain receipts for all applicable and relevant travel expenses incurred. Travelers should readily produce receipts upon request by MCC.
4. Develop and document a mechanism to ensure training and lodging with relation to on boarding/new assignment processes are effectively pre-planned to eliminate unnecessary TDY expense. Pre-schedule and confirm availability of trainings prior to the traveler undertaking travel.

APPENDIX II
Fiscal Year 2019 Travel Card Testing Management Response



DATE: September 22, 2020

TO: Alvin Brown
Deputy Assistant Inspector General for Audit
Office of Inspector General
United States Agency for International Development
Millennium Challenge Corporation

FROM: Ken Jackson/s/
Vice President and Chief Financial Officer
Department of Administration and Finance
Millennium Challenge Corporation

SUBJECT: MCC's Management Response to the Draft Report, "Assessment of MCC's FY2019 Charge Card Programs Identified a Moderate Risk of Improper Purchases and Payments," dated September 15, 2020

The Millennium Challenge Corporation (MCC) appreciates the opportunity to review the draft report on the Office of Inspector General (OIG)'s audit, "Assessment of MCC's FY 2019 Charge Card Programs Identified a Moderate Risk of Improper Purchases and Payments," dated September 15, 2020. MCC concurs with the conclusion of the report and most of its four recommendations, and provides our management decisions below:

- *OIG Recommendation #1 – Develop and document a mechanism to hold travelers accountable for all cash advances.*

MCC Response – MCC concurs with the recommendation. MCC plans to develop a procedure related to cash advances to ensure accountability, and document it appropriately. MCC will research and evaluate options in the E2 solutions to accommodate this request. MCC plans to complete this final action no later than March 31, 2021.

APPENDIX II
Fiscal Year 2019 Travel Card Testing Management Response

- *OIG Recommendation #2 – Establish and require all MCC personnel to obtain training on MCC’s internal policy use of travel cards and allowable expenses for travel.*

MCC Response – MCC concurs with the recommendation. MCC’s Travel Office is working with the Human Resources Division on the creation and delivery of recommended training to card holders. MCC will develop and deliver the recommended training to relevant employees and Personal Services Contractors no later than March 31, 2021.

- *OIG Recommendation #3 – Enforce MCC’s travel policy to require travelers to obtain and retain receipts for all applicable and relevant travel expenses incurred. Travelers should readily produce receipts upon request by MCC.*

MCC Response - MCC concurs with this recommendation. As of September 21, 2020, MCC updated the narrative language in its travel system of record (E2 Solutions) to remind travelers and travel approvers of the records maintenance requirements. Over the coming months, the agency will also update its travel policy to require periodic assessments of travel records and receipts. The policy will be amended and assessed for effectiveness by June 30, 2021.

- *OIG Recommendation #4 – Develop and document a mechanism to ensure training and lodging with relation to on boarding/new assignment processes are effectively pre-planned to eliminate unnecessary Temporary Duty Travel expense. Pre-schedule and confirm availability of trainings prior to the traveler undertaking travel.*

MCC Response – MCC concurs with the recommendation. MCC has changed its hiring method for new compact Resident Country Directors (RCD): RCDs are now hired two years before compact signing as Country Team Leads (CTL) who will become RCDs. This allows MCC ample time to get “Foreign Affairs Counter Threat” (FACT) and other pre-Permanent Change of Station (PCS) activities accomplished while the employee lives in the DC area as an employee without lodging benefits. However, this solution cannot be easily applied to Deputy Resident Country Directors (DRCDs) or overseas personnel who are hired mid-compact. For the next year (or two) MCC should be able to avoid a new employee having taken FACT before PCS because of the backlog created by the pandemic. When State reinstates the “FACT before PCS” mandate, Overseas Administration’s (OOA) will instruct a new employee hired outside of the local area to utilize telework at their home of reference while waiting for FACT. MCC has been very successful at onboarding new employees remotely and in cases such as these (employees hired outside of the DC area) that is what shall be done. These actions will be completed no later than March 31, 2021.

APPENDIX II
Fiscal Year 2019 Travel Card Testing Management Response

If you have any questions or require additional information, please contact me via phone, 202-521-2686; or by email jacksonks@mcc.gov. Additionally, you can also contact Jude Koval, Director of Internal Controls and Audit Compliance (ICAC) via phone, 202-521-7280; or by email kovaljg@mcc.gov.

CC: Damian Wilson, Principal Director, OIG, USAID
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