

COMPLIANCE REPORT

FY 2018 RISK ASSESSMENT OF SBA'S CHARGE CARD PROGRAMS






**U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416**

Final Compliance Report
Report Number: 18-24

DATE: September 20, 2018

TO: Linda E. McMahon
Administrator

FROM: Hannibal "Mike" Ware
Inspector General 

SUBJECT: FY 2018 Risk Assessment of SBA's Charge Card Programs

This compliance report represents the results of our risk assessment regarding the Small Business Administration's (SBA's) internal controls over the purchase and travel charge card programs for fiscal year (FY) 2018.

We previously furnished copies of the draft report and requested written comments on the recommendations. SBA management provided comments via email that were considered in finalizing the report. The report contains three recommendations that SBA agreed to address. Based on management's comments, we consider the recommendations resolved but open, pending completion of final actions. Please provide us within 90 days your progress in addressing these recommendations.

Background

The Government Charge Card Abuse Prevention Act of 2012 (the Act) was signed on October 5, 2012, to reinforce efforts to prevent waste, fraud, and abuse of governmentwide charge card programs. In accordance with the Act and Office of Management and Budget (OMB) Memorandum M-13-21, Implementation of the Government Charge Card Abuse Prevention Act of 2012, inspectors general (IGs) are required, at least annually, to conduct periodic risk assessments of agency purchase cards (including convenience checks), combined integrated card programs, and travel card programs, to analyze the risks of illegal, improper, or erroneous purchases.¹ IGs are to use these risk assessments to determine the necessary scope, frequency, and number of audits or reviews of these programs.² IGs also will report to the Director of OMB on agency progress in implementing audit recommendations by January 31 annually.

Objectives, Scope, and Methodology

The objectives of our risk assessment were to determine (1) whether SBA implemented effective controls, policies, and procedures to mitigate the risk of illegal, improper, or erroneous purchases

¹ SBA uses individually and centrally billed travel accounts, as well as purchase cards including convenience checks. The Agency does not use an integrated cards program.

² The Act did not provide an audit threshold for purchase cards spending; however, audits are required for agencies with \$10 million in prior year travel spending.

and payments and (2) the status of prior year recommendations. To achieve our objectives, we obtained an understanding of laws, regulations, and SBA policies and procedures regarding its charge card programs. We interviewed SBA officials responsible for overseeing purchase and travel card operations and examined documentation, including the 2018 Charge Card Management Plan required by OMB Circular No. A-123, Appendix B, Improving the Management of Government Charge Card Programs, revised. We also used data mining techniques and analyzed purchase card transactions for FY 2018 that occurred between October 1, 2017, and May 31, 2018, to identify potentially improper or erroneous purchases. We further assessed the status of prior year recommendations. (See page 8.)

Results

Our assessment showed that the risk of illegal, improper, or erroneous use of SBA's purchase and travel charge cards is low due to the Agency's continuous monitoring and related oversight efforts. SBA continued to implement controls, policies, and procedures to administer its purchase and travel charge card programs but needs to take additional measures for administrative controls over its purchase cards program. In addition, we reported the status of two recommendations stemming from our previous report. (See page 8.)

Purchase Card Program

For the period October 1, 2017, to May 31, 2018, 150 active purchase cardholder accounts were used to purchase goods and services totaling \$2.3 million. Seven cardholder accounts were subsequently suspended for reasons such as there was no longer an approving official in the SBA program office.

Control Environment and Activities

Since our 2017 review, to safeguard the purchase card program, SBA officials and the Agency/organization program coordinator have updated controls to ensure purchase card monitoring is effective and card usage complies with federal laws and federal and Agency regulations. These controls include standard operating procedure (SOP) 20 22, Government Purchase Card Program and the 2018 Charge Card Management Plan. The SOP and plan include the key controls over the entire process such as

- transaction authorization, approval, review, and account reconciliation;
- monitoring cardholder statements for misuse and other activity;
- establishing and maintaining master/official cardholder files including training; single and monthly purchase limits; and
- the Agency's policy for administrative or disciplinary actions.

In October 2017, the Office of the Chief Financial Officer (OCFO) issued Information Notice 2000-17015, Purchase Card Roles & Responsibilities. OCFO also deployed a quality assurance team that performed data mining to identify high risk or improper purchase transactions. We further noted that OCFO's acquisitions homepage included a bookmark for the purchase card program; however, the site is under construction and not available. The Agency also took actions to address two recommendations from a prior Office of Inspector General report.

Monitoring Controls

As part of our risk assessment, we reviewed control monitoring activities to provide assurance that the control system was operating as designed. The purchase card program has been reviewed

recently by two other internal SBA groups, who have both offered further improvements. First, during FY 2017, OCFO's Office of Internal Control (OIC) tested key purchase card controls for 30 cardholders covering 3 months. As a result of this review, OIC recommended that cardholders be reminded what purchases may and may not be paid on a government purchase card, per standard operating procedures. The inappropriate use of a purchase card should be detected in the monthly reconciliation process when reviewed by the approving official. OIC also recommended cardholders be reminded of authorization requirements for the government purchase card according to the standard operating procedures and the limits for these purchases. Lastly, OIC recommended that SBA remind both cardholders and approving officials that the approving official must review every monthly cardholder statement and reconcile it with supporting documentation, since doing so should detect items such as unapproved requisitions. OIC considers these recommendations to be closed because they do not track recommendations for internal reviews that are performed annually.

Moreover, the Office of Field Operations' (OFO) Office of Program Oversight included SBA's purchase cards in five field accountability reviews conducted during FY 2018. As a result of these reviews, OFO recommended that a district director, who is accountable for purchase card usage, train staff on new policies regarding usage of the budget expenditure log to ensure that all purchases properly meet administrative requirements. The appropriate staff was trained, and OFO closed this recommendation.

We further noted that the OCFO's OIC has deployed a quality assurance team to perform monthly reviews of purchase card transactions. As a result of their reviews, in October 2017, five purchase cardholders were referred to OCFO management for potential card violations. However, those referrals did not result in any administrative action because management concluded that the guidance was unclear. Consequently, OCFO officials and SBA's Office of General Counsel implemented more robust guidance for cardholders and approving officials when using the card. Specifically, in February 2018, SBA issued a "What You Should Know" document to cardholders and approving officials that outlined additional guidance regarding purchases that should not be made when using the government purchase card. Upon issuance of the guidance, the quality assurance team resumed their monthly reviews and investigated potential purchase card violations. As of our review, they have not identified any purchase card violations.

During our risk assessment, we performed data analytics on the purchase card transactions in our scope to further consider the effectiveness of management's monitoring controls. For our analysis, we built queries using characteristics in the purchase card transactions that met certain risk categories that we believe may indicate potentially illegal, improper, or erroneous transactions based on federal and SBA charge card guidance. The categories include the following:

- sales tax paid when using a government-issued charge card when tax should be exempt
- purchases when the government was closed (such as weekends and federal holidays)
- purchases from merchants whose category codes were included on the Agency's blocked list and questionable merchants
- use of convenience checks at merchants who accept the government charge card
- transactions from commercial and third-party merchants, such as Amazon, PayPal, Walmart, Best Buy, Target, Staples, OfficeMax, and Lowe's, even though Federal Acquisition Regulation Part 8, Required Sources of Services and Supplies, requires spending to be prioritized elsewhere
- merchants with purchases from one SBA office or cardholder
- cardholders acquiring recurring services that should be purchased under contract (such as telephone and cable services)

While the Agency issued guidance in 2018 regarding items that cannot be purchased with the government charge card and the use of some of the merchants named above, the Agency could implement more robust data mining procedures to mitigate the potential for illegal, improper, or erroneous purchases and payments.

Accuracy and Completeness of Records Need Improvement

SBA has developed monitoring controls over the purchase cards program; however, we have identified processes that have not been fully implemented regarding its administrative management controls and practices. Specifically, the purchase card program coordinator did not maintain complete and accurate records. For example, an SBA employee that left the Agency in 2016 was still listed as an approving official. Maintaining a reliable record of cardholders and approving officials becomes even more important because SBA will be transitioning from JPMorgan charge cards to Citibank charge cards on November 30, 2018, when the current contract expires. Also, the program coordinator's training records did not reflect whether 20 cardholders and 32 approving officials had completed the biannual mandatory trainings. In accordance with Appendix B to OMB Circular No. A-123, the purchase card program coordinator is responsible for overseeing the establishment and maintenance of master file/official cardholder records, including training, appointment, single and monthly purchase limits, and related records.

When we asked the program coordinator, we were told her records may reflect that training is not up-to-date, since cardholders and approving officials had to get their General Services Administration (GSA) accounts restored after the website for Section 508 of the Rehabilitation Act purchase card training was shut down for several months this calendar year. She further told us that problems have occurred since the system was restored. Therefore, we were told that some cardholders and approving officials were unable to timely complete their mandatory training requirements. We noted that full access to this training website was restored on March 30, 2018.

The program coordinator should first ensure that this list is accurate and then, if training is needed, ensure that cardholders and approving officials complete the required trainings within appropriate timelines as required by guidance. As a result, cardholders and approving officials are informed of program guidelines and further safeguard against card misuse.

Based on our risk assessment, to further mitigate the risk of illegal, improper, or erroneous purchases, we make the following recommendations to improve administrative controls over the purchase card program.

Recommendations

We recommend that the Administrator direct the Chief Financial Officer and Associate Administrator for Performance Management to:

1. Update the purchase card program bookmark on the acquisitions homepage so cardholders and approving officials can quickly access purchase card guidance, such as the memo issued in February 2018.
2. Bring the official cardholder and approving official records up-to-date.
3. Ensure that all current cardholders and approving officials have completed the mandatory trainings and suspend cardholder accounts until training has been completed.

Analysis of Agency Response

SBA management provided informal comments that were considered in finalizing the report. SBA management substantially agreed with the recommendations, and its planned actions resolve each of the three recommendations.

Summary of Actions Necessary to Close the Recommendations

The following provides the status of each recommendation and the necessary actions to either resolve or close the recommendation.

1. **Resolved.** The Chief Financial Officer concurred with our recommendation and plans to complete the final action on this recommendation by March 31, 2019. This recommendation can be closed when we receive evidence that the purchase card information on SBA's acquisitions home page has been updated and made available to cardholders and approving officials.
2. **Resolved.** The Director of the Denver Finance Center and Senior Procurement Executive concurred with our recommendation and plans to complete the final action on this recommendation by December 31, 2018. This recommendation can be closed once we receive evidence that the official cardholder and approving official records have been brought up-to-date.
3. **Resolved.** The Director of the Denver Finance Center and Senior Procurement Executive concurred with our recommendation and plans to complete the final action on this recommendation by December 31, 2018. This recommendation can be closed once we receive evidence that all current cardholders and approving officials have completed the required training or that the charge card has been suspended until such time that training is completed.

Travel Card Program

SBA's travel costs totaled approximately \$64 million for the period covering October 1, 2017, to May 31, 2018. Of that amount, \$61 million were costs related to disaster relief efforts and \$3 million were costs to the rest of SBA. In 2018, SBA had 2,536 active individually billed and 5 centrally billed cardholder accounts.

Travel Card Control Environment

Our assessment showed that SBA officials developed appropriate controls to ensure card usage was monitored effectively and complied with federal laws and federal and Agency regulations. As with the charge card guidance, OCFO implemented SOP 20 11 6, Travel, and included certain travel card controls in its 2018 Charge Card Management Plan. The SOP and plan include specific disciplinary actions for account delinquency, misuse of the government travel card, blocked merchant category codes, creditworthiness, segregation of duties for approving travel vouchers, automated teller machine and card limits, reimbursement of unused tickets, and travel card direct pay.

OCFO's travel page included further guidance for cardholders and approving officials regarding the administration of the travel card program, such as a GSA travel card training instruction manual, GSA travel card training, an online travel card application, PaymentNet access instructions, and the government travel card user guide.

We found that SBA had taken action to enforce these policies. Specifically, we noted that as a result of OCFO's continuous monitoring activities, due to card delinquency, six employees were added to a noncompliant activity report (the Strikes List), and two employees were referred to SBA's Office of Human Resources due to delinquency issues with their card accounts.³ Our review of OCFO's travel delinquency report also showed the following:

- 211 cardholder accounts suspended due to delinquency
- 76 cardholder accounts closed due to delinquency
- 59 cardholder accounts in suspended status (temporary suspension)
- 25 cardholder accounts charged off

For the accounts noted above, the credit card company actively pursues collection efforts. The credit card company and OCFO send letters to cardholders when their account is delinquent. Also, in response to the unprecedented travel volume related to disaster relief, the Office of Disaster Assistance (ODA) took several steps to enhance the control environment for the travel card program. These efforts included providing in-person training to field staff with extensive training materials, providing webinar training, positioning administrative staff in the field for travel support, and developing a new report to track travel vouchers that were processed through the disaster travel system. This report helped ODA to identify outlying vouchers that may have been languishing, follow up on them, and ensure payment to the cardholder and the bank. For travel vouchers that exceed \$2,000, OCFO performed a complete review of the travel costs. In addition, for ODA vouchers, the administrative staff performed a complete review of employee travel prior to allowing the credit card company to issue the credit to the traveler.

Based on our assessment of travel card program risks, we found SBA's oversight of the travel card program acceptable and are issuing no recommendations at this time.

Conclusion

We did not identify any major risks related to the purchase and travel card programs. Adhering to existing guidance has served to mitigate most risks of illegal, improper, or erroneous purchases. We will continue to conduct annual risk assessments in accordance with OMB Memorandum M-13-21. We will periodically review OCFO and OFO's monitoring and testing of controls over SBA's charge card programs. We will also leverage our travel card audit work with reviews conducted by these SBA offices as well as reviews performed by the Agency as required by the Improper Payment Information Act of 2002 (IPIA), as amended; OMB Memorandum M-18-20, Transmittal of Appendix C to OMB Circular No. A-123, Requirements for Payment Integrity Improvement; and OMB Memorandum M-18-14, Implementation of Internal Controls and Grant Expenditures for the Disaster Related Appropriations. In accordance with this memorandum, the Agency is required to include administrative costs such as travel for disasters in its improper payment reviews.

We appreciate the courtesies and cooperation that we received from your staff during our risk assessment. If you have any questions, please call me or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

³ A report to track repeat offenders for delinquency and misuse to enable managers to take appropriate corrective actions.

cc: Timothy Gribben, Chief Financial Officer and Associate Administrator for Performance
Management
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Status of OIG's FY 2017 Recommendations⁴

Consistent with OMB Circular No. A-50, Audit Follow-up, revised, OCFO should report on the corrective action(s) taken or planned for each recommendation and the target date(s) for completion.

Card Type	Recommendation Type⁵	Improvement Area	Status
Purchase	Risk Management	Work with program managers to ensure a more robust process for overseeing the operation and execution of the purchase card activity in their respective program areas. This could be accomplished by providing the tools and knowledge required in standard operating procedures.	Closed
Purchase	Risk Management	Ensure that any appropriate disciplinary action is taken against the three employee cases that were pending at the conclusion of our risk assessment.	Closed

⁴ SBA OIG Report No. 17-17, FY 2017 Evaluation of SBA's Charge Card Programs (September 14, 2017).

⁵ Section as listed in OMB Circular No. A-123, Appendix B.