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

DATE: February 5, 2016

TO: Maria Contreras-Sweet
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               Deputy Administrator

               Tami Perriello
               Associate Administrator for Performance Management
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               Christopher James
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FROM: Troy M. Meyer /s/
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SUBJECT: *FY 2015 Risk Assessment of SBA Charge Card Programs*

This memorandum represents the results of our risk assessment regarding the Small Business Administration's (SBA) internal controls over the purchase and travel charge card programs for fiscal year (FY) 2015.

The report contains four recommendations that SBA agreed to implement. Please provide us within 90 days your progress in implementing the 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 Government-wide 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,* beginning with FY 2013, inspectors general (IG) are required to conduct annual 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

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[1] SBA utilizes individually- and centrally-billed travel accounts, as well as purchase cards including convenience checks. The Agency does not utilize an integrated cards program.

reviews of these programs.[2] Further, IGs will report to the director of OMB within 120 days after the end of each fiscal year on agency progress in implementing audit recommendations, which is due by January 31 annually.

Objectives, Scope, and Methodology

The objectives of our risk assessment were to (1) assess risks of illegal, improper, or erroneous purchases and payments associated with SBA's purchase and travel card programs and (2) determine 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 inquired of certain SBA officials responsible for overseeing purchase and travel card operations and examined certain documentation, including the *2015 Charge Card Management Plan* required by OMB Circular No. A-123, Appendix B, *Improving the Management of Government Charge Card Programs, revised.* We also utilized data mining techniques and analyzed purchase card transactions that occurred between October 1, 2014 and September 30, 2015 to identify potentially improper or erroneous purchases. We further assessed the status of prior year recommendations.

Results

Purchase Card Program

For FY 2015 (October 1, 2014 to September 30, 2015), SBA's 179 active purchase card holders spent a total of $4.6 million. To safeguard purchase card programs Government-wide, OMB Memorandum M-13-21 requires each agency head to annually certify that appropriate policies and controls are in place or corrective actions have been taken to mitigate the risk of fraud and inappropriate charge card practices.[3] SBA management and the agency/organization program coordinator (A/OPC) of the Office of the Chief Financial Officer (OCFO) are responsible for developing these controls to ensure purchase card monitoring is effective and card usage complies with Federal laws and Federal and Agency regulations. Accordingly, OCFO implemented Standard Operating Procedure (SOP) 00 12 2, *The Government Purchase Card Program*, and included purchase card controls in the FY *2015 Charge Card Management Plan*. These documents addressed:

- how the charge card program operates;
- the flow of transactions from request to payment;
- the key controls over the entire process including 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;
- the Agency's policy for administrative or disciplinary actions; and
- management controls over property.

In addition, OCFO included further guidance for cardholders and approving officials on its acquisitions webpage such as answers to frequently asked questions, information regarding what purchase cardholders should know, an overview of the GSA SmartPay purchase card program, a

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[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.
[3] The SBA Administrator's annual certification was included as part of the annual assurance statement required under the Federal Managers' Financial Integrity Act of 1982.

purchase card training presentation for approving officials, and GSA SmartPay purchase card training for cardholders.

We have found that SBA has taken action to enforce these policies. For example, in FY 2015, SBA terminated one cardholder's account after she made purchases that were prohibited by SBA policy. However, SBA needs to make further modifications for its guidance to be truly comprehensive and meet requirements. Several of these improvements stem from areas we identified in our risk assessment for FY 2014, which are still incomplete.[4] More specifically, we determined that SOP 00 12 2 had not been updated to reflect recent reorganizations within the Agency and changes in key roles and responsibilities. Similarly, the *FY 2015 Charge Card Management Plan* had not been updated to include strategic sourcing (as required by Appendix B to OMB Circular No. A-123) and the use of appointment letters for purchase cardholders and approving officials.

In addition to our prior risk assessments, the purchase card program has been reviewed recently by two other internal SBA groups, which have both offered further improvements. First, during FY 2015, 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, first, SBA should 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. Second, OIC recommended SBA develop an improved monitoring system (like a spreadsheet) to track training records, which would identify when either cardholders or approving officials are due to take training. Related to this, OIC also advised that purchase cards should be routinely suspended until training is brought up-to-date. Third, OIC recommended SBA remind cardholders what purchases may and may not be paid on a Government purchase card, per SOP 00 12 2. Approving officials should detect inappropriate use of a purchase card in the monthly reconciliation process. Fourth, OIC recommended that cardholders and approving officials be reminded of the limits for various purchases.

Moreover, the director of the Office of Field Operations' (OFO) Office of Program Oversight included SBA's purchase cards in nine field accountability reviews conducted during FY 2015. As a result of the OFO reviews, the director recommended that district directors, who are accountable for purchase card usage, (1) execute a plan to strengthen that district's administrative and internal control process and (2) ensure that all purchases properly meet administrative requirements. These recommendations were implemented at the district level as of September 30, 2015. However, the Office of Program Oversight's director did not advise the program coordinator, who is ultimately responsible for oversight of the purchase card program, of the relevant findings or recommendations.

Further, our analysis of FY 2015 purchase card transaction data continued to show that, in addition to past issues we have identified, SBA could make additional improvements on its risk management controls and practices. Specifically, we determined that the purchase card program coordinator did not maintain up-to-date records of cardholders and approving officials. For example, the official records omitted cardholders and/or included cardholders or approving officials who had left the Agency. Keeping an accurate list of current cardholders and approving officials would assist the program coordinator in ensuring that they receive required training or important communications pertaining to the program, or that they are performing the required reviews. Additionally, keeping a record of when cardholders leave the Agency would ensure that charge cards and accounts are promptly terminated.

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[4] See Appendix I for the status of these identified improvement areas.

The program coordinator's records also did not reflect whether 27 cardholders and 53 approving officials had completed mandatory training. The program coordinator should first ensure that this list is accurate and then, if training is needed, ensure that cardholders and approving officials receive required trainings within appropriate timeline, as required by guidance. Doing so will help inform cardholders and approving officials of program guidelines and further safeguard against card misuse.

We also noted potentially improper or erroneous transactions such as:

- split purchases into multiple transactions, which could circumvent cardholders' approved spending authority;
- 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 sources such as Walmart, Best Buy, Target, and Office Depot, even though Federal Acquisition Regulation Part 8, "Required Sources of Services and Supplies," requires spending to be prioritized elsewhere;
- cardholders paying sales taxes, although the Government is tax-exempt; and
- cardholders acquiring recurring services that should be acquired under contract (such as telephone, copier rental/lease, and cable services).

We are providing certain transactions to OCFO for further evaluation and, if necessary, remediation.

While SBA has developed and implemented controls to operate the purchase card program, to further mitigate the risk of illegal, improper, or erroneous purchases, we make the following recommendations.

Recommendations[5]

We recommend that the Chief Financial Officer work with the Purchase Card Program Coordinator to:

1. Immediately bring the official cardholder and approving official records up-to-date.

2. Ensure that all current cardholders and approving officials have completed the mandatory green training and suspend cardholder accounts until training has been completed.

3. Utilize Agency reports and timely update the official records when cardholders and approving officials leave the Agency. These procedures should be included in the Charge Card Management Plan and SOP 00 12 2.

We recommend that the Director of OFO's Office of Program Oversight:

4. Notify the purchase card program coordinator of purchase card findings identified during its annual field accountability reviews.

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[5] See Appendix II for the categorization of our FY 2015 recommendations in accordance with OMB Circular No. A-123, Appendix B.

Travel Card Program

For FY 2015, SBA's travel costs totaled $10.4 million. In 2015, SBA had 1,101 active individually-billed and about 4 centrally-billed cardholder accounts. Our assessment showed that SBA's management and travel charge card program coordinator 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 *FY 2015 Charge Card Management Plan*. These documents addressed:

- the purpose of the travel card;
- the process to apply for a card;
- required training;
- the types of travel cards;
- lost or stolen cards;
- authorized use of the travel card;
- exemptions;
- card changes, suspension, and termination; and
- Agency controls for monitoring account activity to detect instances of delinquency and misuse of the charge card.

Those documents also include specific disciplinary actions for delinquency and 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 the GSA travel card training instruction manual, GSA travel card training, an on-line travel card application, PaymentNet access instructions, and the Government travel card user guide.

We have found that SBA has taken action to enforce these policies. Specifically, we noted that as a result of OCFO's continuous monitoring activities, due to card misuse or delinquency, 10 employees were added to a noncompliant activity report (the Strikes Report).[6] Overall, we found SBA's oversight of the travel card program acceptable and are issuing no recommendations at this time.

Conclusion

Our risk assessment showed that although SBA had implemented controls, policies, and procedures to administer its purchase and travel card programs, SBA needs to take additional measures for its purchase card program. Adhering to existing guidance has served to mitigate most risks of illegal, improper, or erroneous purchases. While we did not identify any major risks related to the purchase and travel card programs, we identified a sample of purchase card transactions that warrant OCFO's further review and evaluation. We will report on the results of OCFO's evaluation, as appropriate, and continue to conduct annual risk assessments in accordance with OMB Memorandum M-13-21. We will also periodically review OCFO and OFO's monitoring and testing of controls over SBA's charge card programs.

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

Summary of Actions Necessary to Close the Report

Agency officials concurred with the recommendations. To close this report, SBA needs to provide corrective action(s) taken or planned for each recommendation and the target date(s) for completion.

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We appreciate the cooperation that we received during this evaluation. Please contact me if you would like to discuss this report or any related issues.

cc: Tim Gribben, Deputy Chief Financial Officer
     Eugene Cornelius, Deputy Associate Administrator, Office of Field Operations
     Nick Maduros, Chief of Staff
     Melvin F. Williams, Jr., General Counsel
     Martin Conrey, Attorney Advisor, Legislation and Appropriations
     LaNae Twite, Director, Office of Internal Controls

Appendix I. Status of FY 2014 Risk Assessment Improvement Areas

Card Type	Recommendation Type[7]	Improvement Area	Status
Purchase	Training	Cardholders and approving officials be reminded that every monthly JP Morgan Chase cardholder statement must be reviewed and signed by their respective designated approving official or his/her designate.	Open
Purchase	Training	An improved monitoring system be developed in order to track training records such as an Excel spreadsheet, which would identify when training is due to be taken either by the cardholder or approving official.	Open
Purchase	Training	Cardholders be reminded what purchases may and may not be paid on a Government purchase card, per SOP 00 12 2.	Open
Purchase	Training	Cardholders be reminded that single purchase limits cannot be exceeded in one or more transactions.	Open
Purchase	Risk Management	OCFO management should deploy regular data mining techniques to identify cardholders who split purchases into multiple transactions to circumvent their approved spending authority, purchases with transaction dates on weekends and Federal holidays when the Federal Government is closed, purchases from merchants whose category codes are included on the Agency's blocked list and an analysis of merchant codes to determine whether the codes should continue to be restricted, and the use of convenience checks.	Open
Purchase	Strategic Sourcing	OCFO management should develop strategic sourcing methodologies to maximize the use of mandatory sources in accordance with Federal Acquisition Regulation Part 8, as well as discounts on purchases, as opposed to cardholders acquiring goods and services from commercial sources.	Open
Purchase	Charge Card Management Plan	OCFO management should update the Charge Card Management Plan to include (1) strategic sourcing, as required by Appendix B to OMB Circular No. A-123, as well as (2) the use of appointment letters for purchase cardholders, and (3) fix the link to SOP 00 12 2 on the acquisitions homepage to provide cardholders a quick reference to applicable guidance.	Open

[7] Section as listed in OMB Circular No. A-123, Appendix B.

Purchase	Training	Update training for field office administrative staff regarding purchases, acquisitions, budget, travel, and inventory control.	Closed
Purchase	Best Practices in Managing Government Charge Card Programs	Reduce the number of cards for one field office from three to one.	Closed
Purchase	Best Practices in Managing Government Charge Card Programs	The Denver Finance Center develops policy and procedures to comply with Internal Revenue Service regulations regarding payments to individuals in excess of $600 in a calendar year.	Closed
Travel	Risk Management	Recommend management enhance controls to ensure that obligations are initiated prior to travel, are properly authorized, and include proper documentation to include explanations of non-contract airfare.	Closed[8]
Travel	Risk Management	Recommended that controls be enhanced to ensure that conferences exceeding $100,000 are properly approved, that expenses are paid through the right vehicle, that hotel agreements are signed by authorized officials, and that reporting is accurate and complete.	Closed[8]

[8] We consider this recommendation closed since it does not directly relate to travel card operations.

Appendix II. Status of FY 2015 Risk Assessment Recommendations

Consistent with OMB Circular 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 Type[9]	Recommendation	Status
Purchase	Charge Card Management Plan	1. CFO work with the purchase card A/OPC to immediately bring her official cardholder and approving official records up-to-date.	Open
Purchase	Charge Card Management Plan/Training	2. CFO work with the purchase card A/OPC to ensure that all current cardholders and approving officials complete the mandatory green training and suspend cardholder accounts until training has been completed.	Open
Purchase	Charge Card Management Plan	3. CFO work with the purchase card A/OPC to utilize Agency reports and timely update the official records when cardholders and approving officials leave the Agency. These procedures should be included in the Charge Card Management Plan and SOP 00 12 2.	Open
Purchase	Best Practices in Managing Government Charge Card Programs	4. OFO, Office of Program Oversight director notify the A/OPC of purchase card findings identified during their field accountability reviews.	Open

[9] Section as listed in OMB Circular No. A-123, Appendix B.