



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

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**Final Memorandum Report**  
Report Number: 17-17

**DATE:** September 14, 2017

**TO:** Linda E. McMahon  
Administrator

**FROM:** Hannibal "Mike" Ware   
Acting Inspector General

**SUBJECT:** *FY 2017 Evaluation of SBA's Charge Card Programs*

This draft memorandum report presents the results of our evaluation of the Small Business Administration's (SBA's) purchase cards and risk assessment for SBA's travel card program for fiscal year (FY) 2017.

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 two recommendations that SBA agreed to address. Based on management's comments, we consider both 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 prevent waste, fraud, and abuse of Governmentwide charge card programs. In accordance with the Act and with OMB Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012*, inspectors general (IGs) are required to conduct annual risk assessments of SBA purchase cards (including convenience checks), combined integrated card programs, and travel card programs, to analyze the risks of illegal, improper, or erroneous purchases. IGs are to use these risk assessments to determine the necessary scope, frequency, and number of audits or reviews of these programs. In addition, IGs are required to report to the OMB Director 120 days after the end of each fiscal year on SBA's progress in implementing audit recommendations.

SBA participates in a Governmentwide contract with the General Services Administration. This contract facilitates the issuance of charge cards for use by agencies in support of their procurement activities. SBA uses purchase and travel cards that are issued by JPMorgan Chase (JPMC). SBA also uses convenience checks issued by JPMC.

The Office of the Chief Financial Officer is responsible for overseeing the procurement of goods and services and manages SBA-issued purchase and travel charge cards, as well as convenience checks.

## Objectives, Scope, and Methodology

Our objectives 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. The results from this review will be utilized in a crosscutting evaluation performed in conjunction with the Council of the Inspectors General on Integrity and Efficiency (CIGIE). The CIGIE review was not intended to highlight specific OIG findings in the aggregate report; rather, the results from this evaluation were presented in a format that allowed focus on a particular issue among all participating OIGs.

To achieve our objectives, we reviewed SBA policies and procedures in effect for its travel and purchase card programs the status of prior year recommendations, and internal control testing performed during SBA internal reviews. We obtained an understanding of laws and regulations regarding Government charge card programs. We also inquired of certain SBA officials responsible for overseeing purchase and travel card operations and examined certain documentation, including the *2017 Charge Card Management Plan* required by OMB Circular No. A-123, Appendix B, *Improving the Management of Government Charge Card Programs*, revised.

We obtained JPMC purchase card transactions from October 1, 2016, to March 31, 2017. We used data analysis software to assess the reliability, accuracy, and completeness of this data. Use of the data analysis software allowed us to analyze all transactions for unusual spending activity and other purchasing trends. Using ACL Data Analysis Software and Microsoft Excel, we also executed algorithms to identify transactions in the following high risk categories:

- Blocked merchant category code transaction
- Questionable merchant category code
- Cardholders exceeded single purchase limits
- Split transactions
- Cardholders exceeded micro-purchase limit
- Sales tax transaction
- Weekend or holiday transaction
- Unauthorized third party merchants
- Closed account activity

We statistically selected 46 purchase card transactions for review and requested supporting documentation from the responsible cardholders and approving officials. We reviewed the supporting documentation and contacted the cardholders and approving officials, as necessary. We also contacted agency officials for additional information regarding their review and actions taken on certain cardholders. We conducted this evaluation in accordance with the CIGIE *Standards for Inspection and Evaluation*. Those standards require that we plan and perform the evaluation to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our objectives.

## Results

We found that SBA generally exercised effective management and oversight of the purchase and travel card programs. We determined that SBA had developed policies and procedures that provided sufficient guidance as well as oversight for charge card activity. We also determined that

the purchase card transactions we reviewed were appropriate for the agency's mission. In addition, we reported that the two recommendations stemming from our previous report were resolved (see Appendix). However, vulnerabilities remain in the management and oversight of the purchase card program. Specifically, SBA personnel did not always comply with Federal guidance and SBA policies regarding the pre-purchase, purchase, and reconciliation processes when the Government purchase card was used to acquire goods and services. These deficiencies occurred because program managers were not diligent in their oversight and monitoring of purchase card activity. As a result, there is a greater likelihood that cardholders may make inappropriate purchases, potentially resulting in an increased risk of fraud and misuse of SBA funds. As required by OMB Memorandum M-13-21, we will continue to periodically review SBA's monitoring and testing of controls over its charge card programs.

### *Purchase Card Program*

During the period from October 1, 2016, to March 31, 2017, a total of 154 purchase cardholder accounts were used to pay for goods and services totaling \$1.2 million. Since our 2016 review, SBA management and the agency program coordinator have implemented controls to further improve the purchase card program. Specifically, they have updated the *FY 2017 Credit Card Management Plan*, ensured that cardholders and approving officials completed the required online training, and performed analyses to determine if there were any strategic sourcing methods that could be used to increase efficiencies using the Government purchase card.

Although SBA had implemented controls, policies, and procedures to administer its purchase and travel charge card programs, we identified several purchase card transactions that were not compliant with SBA policy and Federal guidance.

SBA personnel did not always comply with Federal guidance and SBA policies regarding pre-purchase, purchase, and reconciliation processes when the Government purchase card was used to acquire goods and services. SBA Standard Operating Procedure (SOP) 20 22, *The Government Purchase Card Program*, stipulates that approving officials certify proper use of the Government purchase card by cardholders within his/her purview, monitors and approves purchasing activity, and ensures timely reconciliation of transactions for submission to the Denver Finance Center. The SOP further provides that cardholders are responsible for retaining appropriate records.

Our evaluation found that (1) cardholders acquired goods and services from sources other than in the priority required in accordance with Federal Acquisition Regulation Part 8, *Required Sources of Supplies and Services*, while SBA policy provides that cardholders should purchase from the highest priority source available; (2) cardholders reserved and officials approved funds up to a month after cardholder transactions had occurred even though funds should be committed and obligated prior to the purchase; (3) cardholders used convenience checks to pay merchants that also accepted the Government purchase card; (4) cardholders unnecessarily paid sales taxes when the Federal Government should be exempt; (5) cardholders did not reconcile, and approving officials did not document their review of the cardholder monthly statements to ensure that purchases were valid in accordance with SBA policy; and (6) cardholders exceeded the single purchase limit to acquire cell phones and service, as well as copier lease and maintenance services (when monthly transaction amount is annualized).

While the noted deficiencies did not result in substantial improper or erroneous purchases and payments, we concluded that the deficiencies occurred because program managers did not perform robust reviews or adequately monitor cardholder activity. SBA SOP 20 22 provides that program managers oversee the operation and execution of purchase card activity to ensure that purchase cardholders comply with Federal and SBA policies and procedures. We determined that program managers rely on approving officials to ensure the integrity of their office's purchase card activity and do not always hold cardholders and approving officials accountable for their responsibilities under Federal and SBA policies. Also, SBA allows purchase card transactions to be paid even though approving officials did not always verify and approve transactions within the allotted time, and approving officials face minimal consequences for not approving transactions.

Because program managers were not diligent in their oversight and monitoring of purchase card activity, there is a greater likelihood that cardholders may make inappropriate purchases, potentially resulting in an increased risk of fraud and misuse of SBA funds.

Additionally, SBA internal reviews reported that purchase cardholders (1) circumvented their single purchase limits using the purchase card and convenience checks to make multiple transactions with the same merchant (split purchases), (2) exceeded the single purchase limit for services without prior authorization, and (3) paid unauthorized or inappropriate conference fees or registration. To mitigate these risks, the responsible SBA officials facilitated onsite training for administrative staff, suspended certain purchase cards until the cardholder and approving officials had completed online training, and referred cardholders and approving officials to the DFC Director for disciplinary actions.

#### *Travel Card Program*

SBA reported maintaining 1,912 active individually billed and about 3 centrally billed cardholder accounts, incurring \$11.1 million in travel costs from October 1, 2016, to March 31, 2017. During the review period, SBA management continued to make SOP 20 11 6, *Travel*, and other relevant guidance available to cardholders on its travel webpage. In addition, management enhanced the communication that is sent to an employee and their supervisor when the employee's travel card account becomes delinquent. This communication makes supervisors responsible for ensuring that appropriate action is taken for delinquent accounts and is in accordance with the travel SOP. Management also continued to monitor card usage to identify potential misuse or abuse of employee travel cards.

Our risk assessment noted that SBA's continuous monitoring activities identified employees who misused their travel cards by booking travel using Hotwire, taking cash advances and extensive withdrawals from automated teller machines while not in travel status, booking personal travel, purchasing groceries and gasoline, and having delinquent account balances. In addition, seven employees were added to the Strikes Report, which is a noncompliant activity report used to track individuals with substantiated occurrences of delinquency and/or travel card misuse. When an employee receives a second strike, their card is downgraded from standard to restricted. When an employee receives a third strike, their card is suspended until upper management has reviewed the activity and taken appropriate action, including formal disciplinary action.

Six employees were referred to the Office of Human Resources Solutions for disciplinary action. Disciplinary actions taken against those employees resulted in their travel card accounts being suspended, closed, or paid through a salary offset arrangement, the issuance of a proposed

demotion letter, and employee counseling. Actions for some employees were pending at the conclusion of our risk assessment.

## **Recommendations**

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

We recommend that the Senior Procurement Executive:

1. 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 SOP 20 22.

We also recommend that the Chief Human Capital Officer:

2. Ensure that any appropriate disciplinary action is taken against the three employee cases that were pending at the conclusion of our risk assessment.

## **Analysis of Agency Response**

SBA management provided informal comments that were considered in finalizing the report. SBA management substantially agreed with both recommendations, and its planned actions resolve both 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 Denver Finance Center director concurred with our recommendation and plans to complete the final action on this recommendation by October 31, 2017. This action can be closed when we receive evidence that the information notice has been issued to address tools and knowledge that are necessary to ensure a more robust process for overseeing the operation and execution of the purchase card activity in their respective program areas.
2. **Resolved.** The Chief Human Capital Officer concurred with our recommendation and plans to complete the final action on this recommendation by March 6, 2018. This action can be closed once we receive evidence that the appropriate disciplinary action has been taken against the three employee cases that were pending at the conclusion of our risk assessment.

We appreciate the courtesies and cooperation that we received from your staff during our evaluation. If you have any questions, please call me at (202) 205-6586 or Jeffrey Brindle, Director, Information Technology and Financial Management, at (202) 205-7490.

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**Appendix: Status of FY 2016 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.

| <b>Card Type</b> | <b>Recommendation Type<sup>1</sup></b> | <b>Recommendation</b>   | <b>Status</b> |
|------------------|--|---|---------------|
| <b>Travel</b>    | Charge Card Management Plan            | 1. CFO communicate the provisions of SOP 20 11 6 to employees and their supervisors regarding travel card delinquency. This SOP outlines supervisors' responsibility to undertake corrective actions, including disciplinary actions for past due travel card balances. | Closed        |
| <b>Purchase</b>  | Strategic Sourcing                     | 2. CFO works with the Purchase Card Program Coordinator or Acquisition Division staff to identify opportunities for consolidated Government purchases.  | Closed        |

Source: Office of Inspector General Report 17-07, FY 2016 SBA Charge Card Programs Risk Assessment and Status of Prior Year Recommendation (January 18, 2017)

<sup>1</sup> Section as listed in OMB Circular No. A-123, Appendix B.