




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

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**Final Memorandum Report**  
Report No. 17-07

**DATE:** January 18, 2017

**TO:** Maria Contreras-Sweet  
Administrator



**FROM:** Hannibal M. Ware  
Acting Inspector General

**SUBJECT:** *FY 2016 SBA Charge Card Programs Risk Assessment and Status of Prior Audit Recommendations*

This memorandum report presents the results of our risk assessment regarding the Small Business Administration's (SBA's) internal controls over the travel and purchase charge card programs for fiscal year (FY) 2016, as well as the status of previous Government charge card recommendations as of the end of FY 2016.

We previously furnished copies of the draft report and requested written comments on the recommendations. SBA management comments were considered in finalizing the report. The report contains two recommendations that SBA agreed to address. Based on SBA's response, both recommendations will remain open until the Office of Inspector General receives documentation demonstrating that these recommendations have been addressed. 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 Government-wide charge card programs. In accordance with the Act and with 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 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. The Act did not provide an audit threshold for purchase card spending; however, audits are required for agencies with \$10 million in prior year travel spending. 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.

### **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 reviewed SBA's 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 *2016 Charge Card Management Plan* required by OMB Circular No. A-123, Appendix B, *Improving the Management of Government Charge Card Programs*, revised. We further used data mining techniques and analyzed purchase card transactions that occurred between October 1, 2015, and July 31, 2016, to identify potentially improper or erroneous purchases.

## Results

The results of our assessment showed that the risk of illegal, improper, or erroneous use of SBA's travel and purchase charge cards is low due to SBA's continuous oversight efforts. Our risk assessment revealed that although SBA continued to implement controls, policies, and procedures to administer its travel and purchase charge card programs, it needs to take additional measures for both card programs. In addition, we reported the status of four recommendations stemming from our previous report (see Appendix). As required by OMB M-13-21, we will continue to periodically review SBA's monitoring and testing of controls over its charge card programs.

### *Travel Card Program*

SBA reported maintaining 1,748 active individually billed and 3 centrally billed cardholder accounts and incurring \$13.8 million in travel costs from October 1, 2015, to June 30, 2016. During the review period, SBA management continued to make Standard Operating Procedure (SOP) 20 11 6, *Travel*, and other relevant guidance available to cardholders on its travel webpage. In addition, SBA's management and travel card program coordinator updated its travel policy by adding merchant category code 7392, registration fees, to SBA's blocked list. Merchants categorized with certain category codes require special authorization when the Government charge card is used for purchases.

Our review also noted that as a result of the Office of the Chief Financial Officer's (OCFO's) continuous monitoring activities, eight employees were added to a noncompliant activity report (the Strikes Report). This report tracks repeat offenders for payment delinquency or misuse to enable managers to take appropriate corrective actions. Two of the eight employees were referred to the Office of Human Resources Solutions for disciplinary action.

Further, we found that JPMorgan Chase, SBA's travel card provider, determined that it was unlikely to collect (charged off) \$2,751 for 3 cardholder account balances that were 150 days delinquent. While the travel card accounts for these employees were closed when the accounts were 60 days delinquent, these accounts went unpaid for nearly 5 months before they were charged off. We determined that these accounts were charged off because SBA has not implemented salary offset and/or the employees' supervisors did not take appropriate disciplinary action when they were notified that the accounts were delinquent.<sup>1</sup> While SBA has implemented mitigating controls such as recovering outstanding card balances upon employee separation from SBA and not allowing employees with closed accounts to use SBA's centrally billed accounts for travel, it has not implemented a formal policy to timely collect on delinquent cardholder accounts. Consequently,

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<sup>1</sup> SBA's SOP 37 52, *Disciplinary and Adverse Actions*.

\$2,417 remains on SBA delinquency reports because neither SBA nor JPMorgan Chase have collected or recovered these funds. OMB guidance requires that direct controls be implemented for charge card violations.<sup>2</sup>

### *Purchase Card Program*

During the period October 1, 2015, to July 31, 2016, SBA reported having 169 active purchase card accounts that were used to pay for goods and services totaling \$2.2 million. Since our 2015 review, SBA management and the purchase card program coordinator have implemented controls to further improve the purchase card program. Specifically, they have updated the *FY 2016 Credit Card Management Plan*, deployed a quality control function that monitors purchase card usage and performs data analytics of purchase card transaction data, ensured that cardholders and approving officials completed the required online training, and updated cardholder delegation letters to reflect that the maximum allowable single-transaction limit for micro-purchases increased from \$3,000 to \$3,500. Also, OCFO management issued and ensured that SOP 20 22, *The Government Purchase Card Program*, was available to cardholders and approving officials on SBA's intranet site.

We found that SBA continued to show improvement in mitigating the risks of illegal, improper, or erroneous transactions with purchase cards. For example, in FY 2016, SBA updated the cardholder master list, after which approximately 60 cardholder accounts were temporarily suspended because either the cardholder training was not up to date or the cardholder had not returned the revised purchase card delegation letter outlining the \$3,500 single purchase limit. As of our review, three of those cardholder accounts remain suspended due to either lack of training or lack of signed delegation letter. Also, the quality control group referred four cardholders to the Senior Procurement Executive because the cardholders either separated purchases as a means of getting around the cardholder's purchase limit or exceeded the authorized spending limit for certain goods or services.

Despite these improvements, SBA needs to implement components of strategic sourcing guidelines to address the requirements in Appendix B in OMB Circular No. A-123. OMB defines strategic sourcing as the collaborative and structured process of critically analyzing an organization's spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently. According to guidance under this circular, among other actions, SBA needs to:

- perform an analysis of fiscal year expenditures, including contract data, delivery order data, and purchase card data to detect patterns and identify opportunities for savings;
- provide a balanced purchasing strategy considering socio-economic goals and prioritized objectives, where applicable; and
- identify performance measures to assess progress toward achieving agency strategic sourcing goals.

By not implementing strategic sourcing methodologies, SBA cannot be assured that it obtains the best value for its purchases.

In addition to our prior risk assessments, the purchase card program has been reviewed by OCFO's Office of Internal Control and Office of Field Operations' (OFO) Office of Program Oversight. The

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<sup>2</sup> OMB M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012* (September 6, 2013) and OMB Circular No.A-123, Appendix B (January 15, 2009).

director of OFO's Office of Program Oversight included SBA's purchase cards in nine field accountability reviews conducted during FY 2016. As a result of the OFO reviews, the director recommended that district directors, who are accountable for purchase card usage, (1) complete the necessary approving official training and (2) execute a plan to increase employee management, communication, and resource partnership relationships. These recommendations were implemented at the district level as of August 23, 2016.

## **Recommendations**

We recommend that the Administrator direct the Chief Financial Officer to ensure staff members take the following actions:

1. 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.
2. Work with the Purchase Card Program Coordinator or Acquisition Division staff to identify opportunities for consolidated Government purchases.

## **Analysis of Agency Response**

SBA management provided comments and substantially agreed with our recommendations.

## **Summary of Actions Necessary to Close the Report**

The following provides the status of each recommendation and necessary actions to close the recommendations.

1. Resolved. SBA management revised the standard email that is sent to delinquent cardholders and their supervisors to include the relevant sections of SOP 20 11 6 regarding delinquent accounts.
2. Resolved. By January 31, 2017, the Acquisition Division plans to analyze purchase card transactions to identify opportunities for consolidated Government purchases.

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: Nicolas Maduros, Chief of Staff  
Melvin F. Williams, Jr., General Counsel  
Martin Conrey, Attorney Advisor  
Tim Gribben, Associate Administrator for Performance Management and Chief Financial Officer  
LaNae Twite, Director, Office of Internal Controls

## Appendix: 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 <sup>3</sup>	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.	Closed
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.	Closed
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.	Closed
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.	Closed
Source: Office of Inspector General Report 16-09, FY 2015 Risk Assessment of SBA Charge Card Programs (February 5, 2016)			

<sup>3</sup> Section as listed in OMB Circular No. A-123, Appendix B.