



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

Final Memorandum Report
Report Number 19-21

DATE: September 25, 2019

TO: Christopher Pilkerton
Acting Administrator and General Counsel

FROM: Hannibal "Mike" Ware 
Inspector General

SUBJECT: FY 2019 Risk Assessment of SBA's Charge Card Programs

This memorandum 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) 2019. We previously furnished copies of the draft report and requested written comments on the recommendation. SBA provided an email where they fully agreed with the report. The report contains one recommendation that SBA agreed to address. Based on management's comments, we consider the recommendation resolved but open, pending completion of the final action. We ask that SBA provide us its progress in addressing the recommendation within 90 days.

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 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 report annually to the Director of OMB on agency progress in implementing audit recommendations.

In our prior review, we reported that SBA had implemented effective controls, policies, and procedures to mitigate the risk of illegal, improper, or erroneous purchases and payments for its purchase and travel charge card programs. During this review, we focused on controls the Agency had implemented since 2018 to mitigate the risk of illegal, improper, or erroneous purchases and payments.

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.

SBA's contract with JPMorgan Chase under General Services Administration's (GSA's) SmartPay 2 expired on November 29, 2018. In April 2018, SBA executed a contract with Citibank, N.A. (Citibank) as its contractor bank, and beginning November 30, 2018, SBA transitioned from JPMorgan Chase to Citibank. During the transition, key SBA staff collaborated with Citibank to develop an implementation plan with timelines, milestones and deliverables, key controls, and other technical requirements.

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 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 2019 Charge Card Management Plan required by OMB Circular 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 2019 that occurred between October 1, 2018, and June 20, 2019. 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. We did not test those transactions to determine SBA's compliance with federal and SBA guidance. Further, we assessed the status of prior year recommendations.

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. In addition, we determined that the three recommendations stemming from our previous report are now closed. (See page 9.)

Purchase Card Program

For the period from October 1, 2018, to June 30, 2019, SBA's costs for acquiring goods and services are summarized below.

Table 1. Summary of Purchase Card Transactions

Contractor Bank	Number of Transactions	Net Purchases	Number Active Cardholders	Transaction Dates
JPMorgan Chase	839	\$325,232.40	114	10/01/2018 to 11/29/2018
Citibank	3,970	\$1,717,070.67	147	11/30/2018 to 06/30/2019
Total	4,809	\$2,042,303.07		

Control Environment

Since our 2018 review, to safeguard the purchase card program, SBA officials and the program coordinator continued to strengthen controls to ensure purchase card monitoring was effective and card usage complied with federal laws and federal and Agency regulations. These controls included

updating the 2019 Charge Card Management Plan and suspending six cardholder accounts because there was no longer an approving official in the SBA program office.

Further, SBA reduced the number of convenience checks issued to cardholders. Because convenience checks had been issued to cardholders in books of 40, the Agency considered them a risk and issued Procedural Notice 5000-19013, Use of Convenience Checks Fiscal Year 2019. The notice stipulated that use of the convenience check is the least preferred method of executing an action below the micropurchase threshold of \$10,000.00. Cardholders may only use convenience checks as an alternative purchase method if a vendor/contractor will not accept a purchase card or purchase order payment. For each transaction requiring a convenience check, cardholders and contractors/merchants must complete and submit forms to justify the convenience check use. If approved, the program coordinator requests convenience checks from the card-issuing bank on behalf of the cardholder. Purchase card convenience checks are monitored via the card-issuing bank's online management system.

The Office of the Chief Financial Officer (OCFO) also issued guidance authorizing cardholders to establish Amazon Business accounts as an option for tax free government purchases. OCFO's quality assurance team continued to perform data mining to identify high risk or improper purchase transactions. Additionally, to address a prior OIG recommendation, OCFO updated its acquisitions homepage to make purchase card resources easily available to Agency personnel.³ The site includes information regarding GSA SmartPay; Amazon use; a training webinar; SOP 20 22, The Government Purchase Card Program; and SBA notices.

SBA Monitoring Activities

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 had been recently reviewed by two other internal SBA groups, both of which offered further improvements. First, during FY 2018, 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 the program coordinator redesign the process to better track cardholder and approving officials' refresher training. OIC also recommended that cardholders and approving officials be reminded that every monthly cardholder statement must be reviewed and signed by their designated approving official or his/her designee. The reconciliation and review of the bank statement to supporting documentation should detect items such as unapproved Form 2's. OCFO considers these recommendations to be closed because they do not track recommendations for internal reviews that are performed annually.

OCFO's OIC quality assurance team continued to perform monthly reviews of purchase card transactions. During FY 2019, 163 invoices were selected for testing, and 39 invoices required further reviews. These reviews did not result in any violations or referrals.

Second, during FY 2019 the Office of Field Operations (OFO) Office of Program Oversight completed 16 field accountability reviews. As a result of these reviews, OFO recommended that district directors revamp administrative processes to strengthen noted deficiencies. District directors executed a plan to strengthen purchase card monitoring. In addition, OFO provided training to staff at various district offices regarding certain administrative processes. OFO closed the recommendations noting no further was action required.

³ SBA OIG Report No. 18-24, FY 2018 Risk Assessment of SBA's Charge Card Programs (September 19, 2018).

Travel Card Program

SBA's travel costs totaled approximately \$27 million for the period from October 1, 2018, to June 30, 2019. Of that amount, \$23 million were costs related to disaster relief efforts and \$4 million were costs to the rest of SBA. In 2019, SBA had 4,191 individually billed and 3 centrally billed cardholder accounts.

Travel Card Control Environment and Activities

Our assessment found that since FY 2018, SBA had taken action to enforce specific disciplinary actions for account delinquency and misuse of the government travel card. Specifically, we noted that as a result of OCFO's continuous monitoring activities, 16 employees whose travel accounts were 60 days delinquent were added to a noncompliant activity report (the Strikes List), and were referred to SBA's Office of Human Resources for disciplinary action due to delinquency issues with their travel card accounts.⁴ An additional employee was added to the Strikes List due to misuse because she used the travel card for an airline seat upgrade for herself and a companion (non-SBA employee) and for her companion's baggage fee. Also, one employee was referred to the Deputy Chief Financial Officer regarding the delinquent balance on his travel card account.

The Office of Disaster Assistance (ODA) took several steps to enhance the control environment for the travel card program. These steps included issuing memorandums to ODA management and employees, providing travel card training to ODA staff in July 2019, requiring employees to sign an acknowledgment that they understand the travel card policies, working with Citibank to have all cards mailed to ODA's administrative service center (ASC) instead of directly to the employee during the transition from JPMorgan Chase to Citibank, mailing travel cards for all cadre employees to the disaster centers, and maintaining travel cards for term and temporary employees until the employee was requested to travel. If the employee was located in a center, the travel card was sent to and held by the administrative officer at that center; if the employee was located in the field and traveling from their home, the ASC would verify the shipping address before sending the card. In addition, ASC also lowers the credit limit on a travel card to \$1.00 when a term employee goes into nonpay status, requires an employee to return their travel card to ASC when they go into nonpay status, and closes travel card accounts when employees separate from the Agency.

Monitoring Controls

As of our review, OCFO's travel delinquency report showed a \$59,971.70 past due balance categorized by account status below.

Table 2. Travel Card Delinquencies, by Account Status and Past Due Amount

Account Status	Past Due Amount	30 Days Past Due	60 Days Past Due	90 Days Past Due	120 Days Past Due	150 Days Past Due	180 Days Past Due	Number of Accounts
Past Due	\$15,345.19	\$15,345.19	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	36
Cancelled	\$40,318.94	\$0.00	\$0.00	\$962.78	\$2,156.55	\$10,148.14	\$27,051.47	19
Closed	\$591.95	\$0.00	\$0.00	\$591.95	\$0.00	\$0.00	\$0.00	2
Suspended	\$3,715.62	\$1,518.02	\$2,152.59	\$45.01	\$0.00	\$0.00	\$0.00	6
Total	\$59,971.70	\$16,863.21	\$2,152.59	\$1,599.74	\$2,156.55	\$10,148.14	\$27,051.47	63

Source: Delinquency report as of July 17, 2019.

⁴ A report to track repeat offenders for delinquency and misuse to enable managers to take appropriate corrective actions.

Based on our review of documentation provided by OCFO staff, SBA actively pursues delinquent travel card accounts. SBA regularly reviews several online bank-provided reports to monitor travel card delinquency. Detailed reports are reviewed by the program coordinators, Denver Finance Center (DFC) travel management staff, and approving officials and managers at the local office level. Office managers are required to review and sign off on monthly delinquency reports for accounts within their area of responsibility. Emails are sent when necessary to notify and followup with managers and cardholders when delinquency is observed. The DFC's Helpdesk staff sends notifications to delinquent cardholders within 4 days of the end of the processing cycle. Written, explanatory responses are required by the employee and/or the manager. If a response is not received in a timely manner, or if the response is inadequate, the travel card program manager requests that the bank suspends the individual's travel account. The DFC's Helpdesk staff then communicates the delinquency to the Office of Human Resources to facilitate corrective and disciplinary actions on behalf of management.

During FY 2019 ODA conducted 1,612 audits to identify travel card delinquencies and misuse.⁵ As a result of the audits, ODA did not report any travel card misuse. ODA travel card delinquencies are included in the summary above.

Beginning in FY 2019, to mitigate the risk of nonpayment on employee travel card accounts, SBA required direct pay for transportation charges of airfare, lodging, and rental vehicles. SBA also has initiated enrollment in the Visa Intellink program to use data analytics to enhance its ability to detect misuse and abuse for its charge card programs.

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.

Accuracy and Completeness of Records Need Improvement

In FY 2018, based on a prior OIG report, we determined that opportunities existed for SBA to improve the accuracy and completeness of the program coordinator's records.⁶ The recommendations from the prior report were to (1) bring the official cardholder and approving official records up-to-date and (2) ensure that all current cardholders and approving officials have completed the mandatory trainings and suspend cardholder accounts until training has been completed. SBA implemented, and we approved, the corrective actions for these two recommendations.

However, during this assessment we determined that administrative management controls and practices had not been fully implemented. Specifically, the purchase card program coordinator did not maintain complete and accurate training records. The program coordinator's training records did not (1) include all active cardholders and (2) reflect that all cardholders and approving official's mandatory trainings were completed. In accordance with Appendix B to OMB Circular 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.

These deficiencies occurred due to human error and lack of quality controls over information maintained in the Agency's purchase card official records. The program coordinator should first ensure that this list is accurate and then, if training is needed, ensure that cardholders and

⁵ ODA conducted 959 JPMorgan Chase audits and 653 Citibank audits for a total of 1,612.

⁶ SBA OIG Report 18-24, FY 2018 Risk Assessment of SBA's Charge Card Programs (September 19, 2018).

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.

During FY 2019, the Agency continued to issue guidance to enhance controls over the purchase card program, such as deterring the use of the government purchase card at least preferred merchants. Based on our assessment of purchase card program risks, to further mitigate the risk of illegal, improper, or erroneous purchases, we make the following recommendation to improve administrative controls over the purchase card program.

Recommendation

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

1. Implement a quality control process to ensure that official records for Agency purchase cardholders and approving officials are accurate and complete.

Analysis of Agency Response

SBA management provided informal comments where they fully agreed with the report, and its planned action resolves the recommendation. The final action for the recommendation is planned for December 31, 2019.

Summary of Action Necessary to Close the Recommendation

Recommendation 1: Resolved. SBA management will develop a review process in accordance with guidelines in Appendix B to OMB Circular No. A-123, A Risk Management Framework for Government Charge Card Programs. Management plans to have the new process in place by December 31, 2019. This recommendation can be closed upon SBA providing evidence supporting that it has implemented the review process.

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. However, we continued to report that improvement is needed regarding the accuracy and completeness of the Agency's purchase card official records. Also, while we did test purchase card transactions for compliance with federal and SBA guidance, our data analytics identified potential transactions that could pose a risk to the Agency. We will provide those results to the OCFO under separate cover.

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 also will 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, as amended; OMB Memorandum M-18-20, Transmittal of Appendix C to OMB Circular 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 OMB Memorandum M-18-14, 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.

cc: Dorrice Roth, Acting Chief Financial Officer and Associate Administrator for Performance Management
Melissa Atwood, Acting Deputy Chief Financial Officer
James Rivera, Associate Administrator, Office of Disaster Assistance
Kyong Chae, Acting Director, Office of Internal Controls
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Status of OIG's FY 2018 Recommendations⁷

Consistent with OMB Circular A-50, Audit Followup, 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*	Improvement Area	Status
Purchase	Risk Management	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.	Closed
Purchase	Risk Management	Bring the official cardholder and approving official records up to date.	Closed
Purchase	Risk Management	Ensure that all current cardholders and approving officials have completed the mandatory trainings and suspend cardholder accounts until training has been completed.	Closed

* As listed in OMB Circular A-123, Appendix B.

⁷ SBA OIG Report 18-24, FY 2018 Risk Assessment of SBA's Charge Card Programs (September 19, 2018).