

REVIEW OF SBA PURCHASE CARDS

AUDIT REPORT NUMBER 4-09

JANUARY 26, 2004

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**U.S. Small Business Administration
Office of Inspector General
Washington, DC 20416**

AUDIT REPORT
Issue Date: January 26, 2004
Number: 4-09

TO: Sharon A. Gurley
Director, Office of Procurement and Grants Management

Original Signed

FROM: Robert G. Seabrooks
Assistant Inspector General for Auditing

SUBJECT: Review of SBA Purchase Cards

BACKGROUND

We completed an audit of the purchase card program at the Small Business Administration (SBA). In recent years, various Inspectors General and U.S. General Accounting Office (GAO) reports have disclosed insufficient internal controls over purchase card programs at numerous Federal agencies, resulting in thousands of dollars of misspent funds. Effective internal controls are necessary to ensure that fraudulent, improper, or abusive purchases do not occur or, if they do, that such transactions are promptly detected and appropriate corrective actions taken. Unlike travel cards, where the traveler is responsible for making payments, SBA pays the monthly bill on purchase card accounts.

Federal government purchase card programs, which have been operating in many government agencies since 1989, were established to improve agency acquisition processes by providing an inexpensive and efficient vehicle for obtaining supplies and services directly from vendors. According to the GAO, such programs range in size from the Department of Defense with 214,000 cardholders and \$6.8 billion of fiscal year 2002 purchases, to the U.S. Tax Court with 1 cardholder and \$102,000 of fiscal year 2002 purchases.

In 1998, the General Services Administration (GSA) negotiated purchase card service contracts with five commercial banks nationwide as part of its SmartPay® program. SBA selected one of the five, NationsBank (now Bank of America), to provide cardholder services. In FY 2002, Bank of America processed 20,863 SBA purchase card transactions totaling approximately \$7.85 million.

SBA's Office of Procurement and Grants Management (OPGM) designates an official to serve as the Agency Program Coordinator between SBA, GSA, and the contractor. OPGM delegates limited contracting authority to cardholders when needed, receives written requests from proposed cardholders and approving officials, reviews card use and compliance with government rules and regulations, and revokes credit cards immediately if abuse is discovered. OPGM also acts in an advisory capacity regarding the propriety of acquisitions. SOP 00 12 1, *The Government Credit Card Program*, contains SBA's standard operating procedures for use of purchase cards. SBA's Denver Finance Center pays all cardholder charges, while each approving official is responsible for reviewing the monthly statements and certifying that payments are only for authorized purchases.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The audit objective was to determine if SBA purchase cardholders made any improper or potentially fraudulent purchases. The scope of this audit was limited to selected purchase card transactions by SBA cardholders posted from May 1, 2002 to June 30, 2003. We also compared a list of active cardholder accounts to a list of current SBA employees as of May 20, 2003, and again as of October 16, 2003 (both days selected at random), to determine whether any cardholders that separated from SBA still had an open purchase card in their name. Furthermore, we determined whether any purchases had been made since the cardholder left the Agency.

We obtained a dataset from SBA's purchase card servicing agent, Bank of America, of all purchase card transactions posted from May 1, 2002 to June 30, 2003. We relied on the servicing agent for the integrity of the data. We used a data mining software tool to extract transactions that were potentially inappropriate, using criteria such as transactions occurring on weekends and holidays, split purchases, and questionable merchant names and/or category codes. Based on the extractions, we judgmentally selected 420 transactions made by 16 cardholders—7 in SBA headquarters and 9 in field offices—to determine their appropriateness. We requested supporting documentation from the approving officials for these transactions. For the headquarters cardholders, we also requested copies of Bank of America cardholder statements to look for certifications by approving officials. In cases where documentation was missing, we confirmed that the purchases were approved in Oracle, SBA's administrative accounting system. We also contacted the approving official to confirm the purchase was authorized and that whatever was purchased was actually received. We examined the documentation to determine if the items purchased were allowable, based on government regulations. We also scrutinized the materials received for purchases that appeared to have been split into two or more charges to stay under the \$2,500 micro-purchase threshold. Finally, we established accountability over property by confirming that certain items, such as televisions, printers and scanners, remained in SBA's possession.

We interviewed selected cardholders and approving officials in various SBA offices, as well as the Director of OPGM. In addition, we reviewed relevant reports on

audits of internal control over government purchase card programs, SBA's written policies and procedures, and applicable laws and regulations. We performed fieldwork in Washington, D.C. from May 2003 to November 2003. The audit was conducted in accordance with Government Auditing Standards.

AUDIT RESULTS

We did not find any potentially fraudulent transactions during our audit of selected purchase card transactions over a 14-month period by 16 SBA cardholders. The review did, however, identify five purchases over \$2,500 that did not comply with terms of the Federal Acquisition Regulation (FAR). These purchases were split into multiple charges to keep each charge under the \$2,500 micro-purchase threshold, thus circumventing FAR requirements to set aside acquisitions over \$2,500 for competition among small businesses. Additionally, we found several weaknesses in the program's internal controls. Forty-two requisition forms¹ were unsigned by the approving official, more than half of the cardholder statements examined did not have the approving official's certification, and four cardholder accounts remained open after the cardholders separated from service with SBA. We did not, however, find that any purchases were made after these employees separated.

Finding 1: Split Purchases

Five procurement actions over \$2,500 were split, effectively keeping each transaction under the \$2,500 micro-purchase limit and exempt from competition among small businesses. None of the files examined contained evidence that competitive price quotes were solicited or received. Details on these purchases follow:

- \$2,863.85 was paid to Kinko's in two separate charges of \$2,500.00 and \$363.85 for printing training manuals.
- \$3,825.18 was paid to Doubletree Hotels in two separate charges of \$1,912.59 each for conference room rental and related services for a three-day union meeting conducted in the same room.
- \$2,689.83 was divided into three separate charges of \$896.61 each to Holiday Inn on the same day for conference room rental for an event related to the Senior Executive Service (SES) Candidate Development Program.
- \$4,206.81 was paid to Inktomi in two separate charges of \$2,103.00 and \$2,103.81 for software licensing and support.
- \$8,740 for furniture for a single office was split between two cardholders into five separate charges to Marshall Fields over a two-month period. The items

¹ "Requisition forms" refers to either an SBA Form 2 (Requisition for Supplies, Services and Federal Assistance) or Standard Form 182 (Request, Authorization, Agreement and Certification of Training).

purchased were a sofa, coffee table, and eight chairs. Five Form 2s were completed, three dated 7-1-02 and two dated 7-30-02. Each of the five charges was less than the \$2,500 micro-purchase threshold.

According to SOP 00 12 1, *The Government Credit Card Program*, “the standard single purchase limit for program office personnel is \$2,500.” The FAR exempts such micro-purchases from competition if the price is considered reasonable. However, the FAR prohibits breaking down purchases exceeding the micro-purchase threshold into several purchases that are less than that threshold merely to (1) permit use of simplified acquisition procedures; or (2) avoid any requirement that applies to purchases exceeding the micro-purchase threshold.

The Director of OPGM stated that a key factor in determining whether multiple charges constitute a split purchase is when the need for the item(s) is established. After reviewing the Marshall Fields charges, OPGM’s Director said it was likely that the need for the various items was established all at once, rather than deciding, for example, that a sofa was needed one day and then four chairs the next, a coffee table on the third day, etc. Assuming the need was established the same day, and the cost for the various items totaled \$8,740, then the proper way to have procured the items would have been with a purchase order executed through OPGM, according to the Director, rather than dividing up the purchase into five separate charges among two cardholders, so that each charge was under the \$2,500 micro-purchase threshold.

Four of the split purchases were confirmed by approving officials and/or card users, who explained that the purchases were split for convenience, to save time, and to get around the additional government requirements for procurement of items or services costing in excess of \$2,500. On the procurement action for the office furniture, the approving official did not believe that the furniture should have been procured using one purchase order since it did not constitute a set. If the proper procurement requirements had been followed for all of the split purchases, including setting aside these acquisitions for competition among small businesses, it is possible that SBA could have received the same or similar products at a lower price.

Recommendation:

- 1A. We recommend that the Director, Office of Procurement and Grants Management, issue a Procedural Notice reminding cardholders and their approving officials of the appropriate procedures for procuring items or services costing in excess of \$2,500, and of the possible penalties for failing to follow those procedures.

Finding 2: Weaknesses in the Program’s Internal Controls

The audit found several internal control weaknesses with SBA’s purchase card program. Ten percent of the reviewed requisition forms were unsigned by the approving official, more than half of the cardholder statements examined did not have the approving

official's certification, and four cardholder accounts remained open after the cardholders separated from SBA service. SBA procedures require the certification of approving officials on requisition forms and cardholder statements, as well as the collection of purchase cards upon termination of employment. Although the audit did not find any potentially fraudulent purchases made by cardholders, it is possible for fraud or other inappropriate actions to be committed against SBA if cardholders can continue to make purchases after leaving the Agency or if approving officials do not sign requisition forms and review and certify cardholder statements.

Form 2s Missing Approving Official's Signature

Forty-two of the 420 purchase card transactions reviewed were missing the signatures of approving officials on the requisition forms. We confirmed that all of the 42 purchases were approved, either by interviewing approving officials or checking printouts from Oracle, SBA's administrative accounting system.

SOP 00 12 1, *The Government Credit Card Program*, requires that "all certifications and prior approvals currently required by SOP 00 11 apply to the credit card program." SOP 00 11, *Small Purchases, Contracts, Grants & Cooperative Agreements*, states that "the SBA Form 2 is the foundation document for the expenditure of public funds. Appropriate approvals and documentation must exist before the start of a procurement action."

According to card users interviewed, the missing signatures were simply an oversight. Interviews with approving officials verified that all of the purchases for which Form 2s were missing their signatures were, in fact, authorized, and all were for items permitted by SBA regulations.

Although the audit did not find any potentially fraudulent purchases, it is possible for fraud or other inappropriate actions to be committed against SBA if cardholders make purchases without first completing a Form 2 and having it signed by an approving official. SBA Procedural Notice #2000-665, effective after the period covered in this audit, reminded approving officials of their responsibility to "ensure that every item purchased has been authorized by a Form 2 and has received the necessary clearances prior to purchase." Since the procedural notice has already been issued, we do not have a recommendation related to our finding of unsigned Form 2s.

Cardholder Statements Not Certified by the Approving Official

Fifty-one of the 92 cardholder statements examined by auditors were not certified as having been reviewed by approving officials. According to SOP 00 12 1, *The Government Credit Card Program*, the approving official is responsible for certifying the cardholder's statements and ensuring that payments are for purchases that are authorized and made in accordance with procurement regulations.

According to interviews with approving officials, they were either unaware of the requirement to review cardholder statements or were simply negligent in fulfilling that requirement. If approving officials neglect to review cardholder statements, it is possible for fraud or other inappropriate actions to be committed against SBA and remain undiscovered. SBA Procedural Notice #2000-665, effective after the period covered in this audit, re-emphasized Agency policy regarding supervisory review of important administrative transactions, including purchase cards, to ensure the validity and accuracy of recorded obligations and expenses. Since the procedural notice has already been issued, we do not have a recommendation related to our finding of a lack of supervisory review of cardholder statements.

Four Cards Remained Open After Cardholders Departed SBA

Auditors compared a dataset of open cardholder accounts with one of current SBA employees as of May 20, 2003, and again as of October 16, 2003, and each time found two open accounts belonging to cardholders that had separated from service with SBA. Three of the accounts did not have any activity after the cardholders' separation dates, and the accounts were closed upon an auditor's recommendation. For the fourth open account, we found five transactions posted after the cardholder's separation date. These transactions, however, were for authorized and allowable purchases that had simply not yet been posted to the account as of the employee's separation date.

According to SOP 00 12 1, *The Government Credit Card Program*, it is the responsibility of the cardholder to "cut in half and return the credit card, through the approving official, upon termination of employment." Likewise, it is the responsibility of the approving official to "collect credit cards and remove individuals from the credit card program when appropriate." However, the SOP does not contain any specific instructions about closing the account.

A purchase card is one of the items to be cleared on SBA Form 78 (Separation Checklist), which the supervisor or administrative officer is supposed to initiate at least one week prior to an employee's separation date, according to the form's instructions. Procedurally, the card should be cancelled when a cardholder leaves SBA, but may remain open, according to OPGM's Director, so it can still accept charges such as those made by convenience checks that have not yet posted to the account as of the employee's last day of service. Three of the four approving officials of the separated cardholders stated that they thought the card had already been cancelled. They each followed their own procedures for handling the cards of the departing employees because there was no clear guidance on card cancellation from the Agency. One departing employee's card had never been activated and for another the surrendered card was simply placed in a secure locker. The approving official for the fourth cardholder stated that the card was being kept open until a charge made prior to the employee leaving SBA was posted to the account. Instructions for closing cardholder accounts upon a cardholder's separation from SBA service need to be clear and uniform.

Although the audit did not find any improper purchases made by separated cardholders, it is possible for fraud or other inappropriate actions to be committed against SBA if cardholders can continue to make purchases after leaving the Agency.

Recommendation:

- 2A. We recommend that the Director, Office of Procurement and Grants Management, issue a Procedural Notice directing approving officials to collect purchase cards from employees separating from service with SBA, as per SOP 00 12 1, and update the SOP detailing the specific steps to take to cancel the card.

SBA MANAGEMENT'S COMMENTS

The Director, Office of Procurement and Grants Management, agreed with the report's two recommendations, and had no other comments.

* * * * *

The recommendations in this audit report are based on the conclusions of the Auditing Division. **The recommendations are subject to review, management decision and action by your office in accordance with existing Agency procedures for audit follow-up and resolution.**

Please provide us your management decision for each recommendation within 30 days. Your management decisions should be recorded on the attached SBA Forms 1824, "Recommendation Action Sheet," and show either your proposed corrective action and target date for completion, or explanation of your disagreement with our recommendations.

Should you or your staff have any questions, please contact Robert G. Hultberg, Director, Business Development Programs Group at (202) 205-7577.

Attachment

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