



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

AUDIT REPORT
Issue Date: September 29, 2003
Report Number: 3-42

To: Thomas A Dumaresq
Chief Financial Officer

Darryl K. Hairston
Assistant Administrator for Administration

[Ex. 6]

From: Robert G. Seabrooks
Assistant Inspector General for Auditing

Subject: Audit of Travel Card and Purchase Card Controls

BACKGROUND

We completed an audit of the U.S. Small Business Administration's (SBA) controls over travel cards. The Travel and Transportation Reform Act of 1998 (Public Law 105-264, Section 2) requires employees who travel on official Government business to pay for their travel related expenses with a Government issued credit card (travel card), and it prohibits them from using the travel card for any other purpose. Each cardholder executes an individual contract with the Bank of America, SBA's travel card issuer. As of July 16, 2002, there were 3,781 active SBA travel card accounts. During the period covered by this audit, April 1, 2001 to March 31, 2002, SBA travel card holders charged approximately \$15.7 million to their travel cards. SBA is responsible for ensuring that only authorized expenses are charged to the card and that timely payments are made by cardholders to the bank. However, individuals, and not SBA, are ultimately responsible for charges incurred on the travel cards.

We also conducted a limited review of SBA's controls over purchase cards. Unlike travel cards, the Federal Government is responsible for charges made on the purchase cards. As a result, purchase cards pose a direct financial risk to the Government from fraud and misuse. On May 16, 2003, there were 268 active SBA purchase cards. There were approximately \$7.8 million in charges to these purchase cards during Fiscal Year 2002.

**AUDIT OF TRAVEL CARD AND
PURCHASE CARD CONTROLS**

AUDIT REPORT NUMBER 3-42

September 29, 2003

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OBJECTIVES AND SCOPE

The audit objectives were to determine if adequate controls exist to prevent and detect inappropriate use of travel and purchase cards, and whether the travel cards are held only by SBA employees. To determine whether adequate controls existed to detect inappropriate travel card usage, we judgmentally selected accounts with a high probability of having non-authorized transactions. Since we selected our sample on this basis, the percentage of accounts with non-authorized transactions and the number of non-authorized transactions in each account cited in this report are not representative of the universe of SBA travel cards.

We judgmentally selected 30 travel card accounts using Bank of America's "non-travel" exception report and reviewed all 2,563 transactions (2.4 percent of all SBA travel card transactions made during this period), including ATM cash advance fees, made on these accounts from April 1, 2001, to March 31, 2002, to determine whether SBA had effective controls to prevent and detect travel card misuse. These transactions totaled \$138,019.30, or 0.9 percent of the dollar value of transactions made on all SBA travel card accounts during this period. The non-travel exception report was used to identify those accounts with a high probability of non-authorized transactions. Using this report, we narrowed our review to the 30 accounts with the highest number and/or the highest dollar value of potentially non-authorized transactions. We reviewed travel records maintained by SBA's Denver Finance Center (DFC) to determine whether transactions were made while the cardholder was on authorized travel status. We questioned the cardholders and/or their supervisors when we identified charges for which there were no corresponding travel vouchers on file to determine if the transactions were made for official Government travel purposes. We reviewed DFC's misuse detection reports to determine whether DFC detected the inappropriate charges we identified in the audit. We reviewed Bank of America's "delinquency" reports to determine whether the cardholders in the audit sample had delinquent accounts and to calculate the percentage of travel card accounts agency-wide that were delinquent. We also reviewed all active travel card accounts to determine whether they were held by current SBA employees and whether DFC was effectively monitoring this process.

The review of purchase card controls consisted of reviewing (1) credit card testing performed as part of the audits of SBA's FY 2001 and FY 2002 financial statements, (2) five credit card transactions to determine whether the approving officials reviewed the purchase card statements and whether the transactions were appropriate, (3) internal controls and 40 purchase card transactions from one office which came to our attention via an employee referral, and (4) observations from the audit of the National Women's Business Council. The credit card transactions in (2) above and (3) above were selected based on questionable merchant descriptions as listed in the Bank of America's credit card transaction database.

We interviewed SBA officials in DFC, Office of Procurement and Grant Management, and Office of Disaster Assistance (Disaster Assistance); other SBA officials in offices where we reviewed purchase card transactions; and Bank of America officials. In addition, we reviewed SBA's written policies and procedures as well as applicable laws and regulations. We performed fieldwork from April 2002 to December 2002, in Washington, DC and Denver, CO. The audit was conducted in accordance with Government Auditing Standards.

AUDIT RESULTS

SBA lacked adequate controls to ensure that travel cards were used in accordance with applicable laws and regulations. As a result, travel card accounts were used by some employees for purposes other than those related to authorized Government travel, and the accounts were not always cancelled or deactivated in a timely manner. SBA employees were not held accountable for improper use of their travel cards when they did not adhere to the cardholder agreements that they signed. Additionally, purchase card statements in various SBA offices showed no evidence that the approving official ensured that the charges were for authorized purchases made in accordance with procurement regulations.

Finding 1: SBA Controls Did Not Adequately Prevent and Detect Inappropriate Travel Card Usage

SBA's review of travel card transactions did not, in most cases, identify the unauthorized transactions identified in our audit. Further, when DFC identified potential misuse, DFC did not always follow through to determine if misuse had occurred. Accordingly, DFC did not always notify the supervisors of cardholder misuse, thus allowing the individuals to continue to misuse their travel cards. Misusing Government travel cards can undermine SBA's travel card program. There is an increased delinquency rate when employees use their travel card for unauthorized purposes, and an increased rate of delinquency puts the agency at risk of losing its credit card privileges with the credit card issuer.

Based on our review of 30 cardholders, SBA did not effectively identify travel card misuse. We identified 1,968 inappropriate travel card transactions, totaling \$91,386.08, made by 29 employees. Of these 1,968 transactions, 1,585 were made while the cardholders were not on travel status, 299 were unauthorized cash withdrawals made while the cardholders were on travel status, and 84 were made while the cardholders traveled locally within the limits of their duty station. DFC identified only 213 of the 1,968 transactions that we identified, totaling \$13,112.70, made by 15 employees. This constitutes 11 percent of the transactions, 14 percent of the dollar value of the unauthorized transactions, and 52 percent of the employees we identified. While the 1,968 transactions on 29 travel card accounts constitutes a small percentage of the total travel card transactions and accounts, the results are significant in that SBA's control techniques did not identify the vast majority of the inappropriate transactions that we identified. Additionally, DFC officials did not consistently research and report potentially unauthorized transactions it uncovered so that corrective action could be properly taken. Of the 15 cardholders in our sample for which DFC detected possible travel card misuse, it reported the misuse to the supervisors in eight instances. When supervisors were notified, there was no further misuse on these cardholders' accounts. However, of the other seven cardholders whose supervisors were not notified, six continued to use their travel card for unauthorized purposes.

Office of Management and Budget (OMB) Circular A-123, *Management Accountability and Control*, mandates the establishment of management controls for all agency programs. Such controls should ensure that "...all program operations...comply with applicable laws and regulations..." and should "...provide reasonable assurance that assets are safeguarded against...unauthorized use..." Further, according to the GSA Smart Pay program, from which

the travel card program is derived, each agency's Agency/Organization Program Coordinator (the DFC at SBA) is responsible for ensuring that cardholders use the card correctly and for monitoring the account activity. Additionally, Standard Operating Procedure (SOP) 20 11 04, *Travel*, limits the use of the travel card to pay only for expenses incurred incident to officially authorized Government travel. It prohibits personal and family member use of the card and requires pre-approval from an authorized official to obtain a cash advance. Also, the cardholder agreement requires the cardholder to use the card only for travel-related expenses while in official travel status away from the cardholder's official station/duty station. This requirement is not found in SBA's travel SOP.

The procedures DFC used to monitor the travel card program were ineffective in identifying potential travel card misuse. According to DFC officials, they reviewed all monthly cardholder activity for legitimacy based on the reviewer's knowledge of the travel regulations; there was no specific, written criteria used to judge these transactions. Based on an average volume of 8,700 travel card transactions per month, we conclude that this is an unreliable method for detecting travel card misuse by one individual. This is evidenced by the fact that most travel card misuse often went undetected. While reviewing the individual transactions, DFC did not determine whether the transactions were charged in connection with authorized travel. As a result, it did not question what appeared to be legitimate transactions, e.g., hotel, food and cash withdrawal charges. Also, DFC was not aware that travel cards were not to be used by employees traveling locally, and therefore, did not identify this type of transaction as misuse or notify the cardholders' supervisors for disciplinary action.

DFC did not use any of the tailored Bank of America reports designed to aid reviewers in detecting misuse during its monthly review. For example, the Bank of America report we used to select our sample, the non-travel report, is an effective tool for identifying travel-related charges that may have been charged while the cardholder was not in an official travel status. Of the 30 cardholders we selected from the non-travel report, 29 had misused their travel card. In addition to the non-travel report, there are other tailored Bank of America exception reports designed to aid in the travel card monitoring process. These reports are designed to focus the reviewers' attention to transactions that have a high possibility of misuse. Accordingly, the reviewers are able to concentrate their efforts on a group of transactions rather than conducting an impractical review of every single transaction. The implementation of these reports in the agency's procedures would eliminate the need for a cumbersome review of all monthly transactions.

When DFC detected potential misuse during its review of travel card activity, it did not consistently research and report potentially unauthorized transactions it uncovered so that corrective action could be properly taken. DFC officials stated that they questioned the cardholder about the nature of the charge and gave him/her an opportunity to offer an explanation. If the cardholder stated that the charge was made for an official business purpose or that the card was used in error, the matter was dropped and no documentation was obtained or other verification sought to support the explanation, e.g., a copy of the travel authorization. The supervisor was notified only if the cardholder failed to provide a response. As a result, supervisors were not always notified of misuse and, therefore, were unable to take appropriate disciplinary actions against the cardholders to prevent continued misuse.

DFC officials stated that Administrative Officers throughout SBA were given access to the Bank of America travel card records, and those receiving training from DFC since September 2001, were verbally informed to monitor the travel card activities of employees in their respective offices. However, this requirement has not been formalized and not all Administrative Officers were aware of it. In conducting this audit, we found no indication that these reviews were conducted. We believe that it is important for the individual offices to be involved in the monitoring process since they are in the best position to determine whether cardholders are misusing the travel cards. As such, SBA should formalize this review process and provide specific guidance concerning this review. While the draft Travel SOP states that the "office director, administrative officer, and the DFC are required to monitor travel card transaction/delinquency reports to assure that the travel card is being used according to agency policy," it does not provide the necessary detailed procedures to follow and the SOP has not been finalized.

There is an increased risk of delinquency when the travel cards are used for unauthorized purposes. For example, during our review period, 86 percent, or 25 of the 29 accounts that we identified as having inappropriate charges had delinquent balances for at least one month of our review period. Of the 25 delinquent accounts identified in our sample, five were ultimately suspended, three were cancelled, and four were cancelled and eventually charged off by Bank of America. During February 2002, 38 percent, or 11 of the 29 accounts that we identified as having inappropriate charges, had delinquent balances while 22 percent of all SBA employees with activity on their SBA travel cards at that time had delinquent balances. Delinquency puts the agency at risk of losing its credit card program privileges with the credit card issuer. At a minimum, it gives the appearance that the travel card program is not appropriately controlled by SBA. In order to reduce the delinquency rate, SBA could adopt a mandatory split-pay policy for habitually delinquent accounts whereby the DFC pays the credit card issuer directly. The General Services Administration has recommended this policy and several agencies have considered adopting it.

DFC officials noted that they would like to establish a policy to deactivate the travel cards and maintain them in this status until the cardholders have a need to travel. This policy should reduce inappropriate charges and could help reduce the delinquency rate.

We did not make any recommendations in this report concerning remedial actions against employees identified as misusing their travel cards since we already notified the supervisors of these cardholders about the violations uncovered in the audit. Cardholders' supervisors were advised to take appropriate disciplinary action as outlined in SOP 37 52 2, *Disciplinary Actions*.

Recommendations:

We recommend that the Chief Financial Officer:

- 1A. Develop written procedures for DFC's monitoring of travel card transactions. These procedures should include utilizing Bank of America misuse identification reports, confirming whether actual misuse has occurred by reviewing supporting travel records, and notifying the traveler's supervisor for proper disciplinary action in accordance with SOP 37 52 2, when transactions are determined to be unauthorized.
- 1B. Issue the new Travel SOP that includes (1) procedures for travel card use while traveling locally within the limits of one's duty station, (2) a provision prohibiting withdrawing cash without prior written approval on SBA Form 21, *Travel Authorization*, (3) procedures for office directors and administrative officers to follow when reviewing travel card transactions, (4) a policy requiring split disbursements of travel reimbursements between the credit card issuer and the traveler for all travel cardholders having habitually delinquent accounts, and (5) procedures to deactivate travel cards whenever the cardholders are not authorized for official travel.

Management Response

The CFO generally disagreed with our conclusions and recommendations in this finding. His response is summarized below and is included in its entirety as Attachment 1.

Scope and Methodology

The CFO was concerned that the scope of the audit did not clearly state that the sample was judgmentally selected. He believed the sampling methodology precluded us from drawing conclusions on an agency-wide basis and as such, that the finding title is a misleading conclusion. He suggested that a random sample be conducted.

Review of Travel Card Transactions

The CFO disagreed with Recommendation 1A concerning DFC's review of travel card transactions. He stated that the transaction activity report that DFC has been using to review travel card transactions is more comprehensive than the non-travel report used in our audit. He also stated that DFC is responsible for monitoring travel card activity on a sample basis.

The CFO stated that DFC is not solely responsible for reviewing the travel card transactions and taking corrective action. He stated that this responsibility is shared with the Administrative Officers and supervisors. He would like to see a recommendation requiring the head of each office to review and sign off on the detailed transaction reports for his/her respective office.

Use of Travel Card While on Local Travel

The CFO disagreed with our recommendation that the new SOP prohibit employees from using travel cards for local travel, preferring to see a recommendation that SBA evaluate the current policy on the use of the travel card for local expenses and to modify or amend the Bank of America agreement if necessary. He stated that SBA's undocumented policy is to allow travel card use "for all valid reimbursable travel expenses – to include local use," noting that 1,669 of the 1,968 transactions identified in the audit as misuse "involve use of the travel card related to variations of this local travel issue, to which we take exception." He stated that the undocumented policy enables them to be in compliance with Federal Regulations requiring the use of the travel card for all "official" travel expenses. He stated that the Bank of America cardholder agreement is the only policy that specifically prohibits the use of the travel card on local travel and the Bank of America is willing to amend the agreement to reflect the agency's current and preferred procedures.

Suggested Improvement

The CFO stated that, in the past, the OCFO tried to address the problem of travel card misuse by maintaining travel cards in an "inactive" status until the cardholders needed to travel. However, this idea was met with resistance across the agency, and as a result, the OCFO abandoned this idea. OCFO officials expressed interest in receiving an audit recommendation requiring travel cards be maintained in an inactive status except when employees are on travel status.

OIG Evaluation of Management's Response

Scope and Methodology

We modified the report to address the CFO's concerns about the judgmental sample selection. However, we did not amend the finding title because it accurately reflects our conclusions about the controls over travel card transactions. We concluded that SBA controls did not adequately prevent and detect inappropriate travel card usage since SBA's controls only identified 213 of 1,968 inappropriate travel card transactions. Whether or not the inappropriate transactions were identified based on a representative sample does not change the fact SBA's controls did not identify almost 90 percent of these transactions.

Review of Travel Card Transactions

While the CFO states that a listing of every transaction is more comprehensive than reviewing exception reports, DFC officials informed us that they will begin to incorporate exception reports in their monthly review of the statements. Additionally, the CFO stated that DFC is responsible for monitoring travel card activity on a sample basis. We continue to believe that using exception reports is more effective and a more productive use of DFC's limited resources and recommend its use by DFC.

Although SBA's policy does not require Administrative Officers to review travel card transactions, we added a discussion of the informal process, as described by DFC, within the body of the finding. Since none of the interviewed supervisors identified that their Administrative Officer notified them of any of the identified transactions, we do not believe that this informal policy was effective during the time period covered by our audit. If this policy is formalized and includes reviews by Administrative Officers, in addition to DFC, it could improve SBA's ability to detect inappropriate travel card usage. As such, we added a recommendation to include procedures for this review in the new Travel SOP, which could include sign-off after review. The report already discusses the reduced occurrence of misuse by individuals after the supervisor is notified.

Use of Travel Card While on Local Travel

The CFO agrees that the Bank of America agreement prohibits use of the travel card for local travel expenses. As such, we have not changed our finding. If the CFO wants to allow use of the travel card for local travel expenses, the OCFO can work with Bank of America to modify the agreement, and we have modified our recommendation accordingly. We caution the CFO to ensure that if the OCFO permits travel cards to be used for local travel, they develop procedures to preclude abuse.

We reviewed DFC's analysis of the 1,669 transactions that they stated were related to local travel, and disagree with their conclusion. As such, we stand by the numbers cited in the report. In DFC's analysis, DFC actually contested 1,129 transactions, 864 relating to DFC detecting the item or for another reason, and 265 related to potential local travel. Although DFC contested the appropriateness of the transactions, there was no evidence that DFC actually compared the dates employees were on travel status with the dates of the travel card charges.

Suggested Improvement

We agree with OCFO officials' assessment of the need to maintain travel cards in an inactive status until required for travel. We believe that such a recommendation is practical, and it will deter future misuse of the travel cards. As such, we added a recommendation to deactivate travel cards whenever cardholders are not authorized for travel.

Finding 2: Individuals No Longer Employed By SBA Had Active Travel Card Accounts

SBA's internal controls did not ensure that individual accounts were always cancelled or deactivated when an employee left the agency, as required by agency procedures. Should these accounts be used and become delinquent, SBA cannot take the remedial action used for current employees. Delinquency puts the agency at risk of losing its credit card privileges with the credit card issuer.

Seven percent of active travel card accounts were held by individuals no longer employed at SBA. We identified 264 active SBA travel card accounts maintained by separated employees at July 16, 2002, of which 116 belonged to separated non-Disaster employees, and 148 belonged to separated Disaster employees. Of the 116 non-Disaster employees, 37 were separated for less than six months, 23 were separated for more than six months but less than a year, and 56 were separated for more than one year. Of the 148 Disaster employees, 35 were separated for less than six months, 98 were separated for more than six months but less than a year, and 15 were separated for more than one year.

Only current SBA employees are permitted to have SBA travel cards. SOP 20 11 4, *Travel*, cites steps to be followed when an employee leaves SBA to ensure the travel card will be cancelled. Specifically, "The card must be cut in half...and forwarded to . . . [DFC]...The approving official must certify on the SBA Form 78 [Final Salary Clearance] that the card has been returned..." According to DFC officials, upon its receipt of the destroyed card and the Form 78, it contacts the Bank of America to cancel the account. The agency adopted a modified version of these procedures for the Office of Disaster Assistance. Since Disaster assistance employees are often rehired after they leave the agency, officials determined it was impractical to constantly open and close their travel card accounts. Accordingly, the agency, unofficially, has decided to deactivate, rather than permanently cancel, accounts for Disaster Assistance employees who have the possibility of being rehired.

The safeguards in place to ensure that only current SBA employees have SBA travel cards were not completely effective. DFC processed travel card cancellations upon receipt of Final Salary Clearance forms from the cardholders' personnel officers. However, there was no assurance that all of these forms were received in a timely manner. As a result, DFC officials stated they periodically reviewed the open and active travel card accounts to ensure that they belonged to current SBA employees and cancelled the travel cards of all separated employees identified. DFC established informal procedures for this review, but there was no guideline that outlined the extent or timing of the review. Further, DFC did not maintain any evidence that such a review had ever been performed.

In addition, due to the informal alternate cancellation procedures used for the Office of Disaster Assistance (ODA), DFC only processed Disaster employee travel card deactivations or cancellations upon receipt of a specific written request from ODA, regardless of whether it received a Final Salary Clearance Form from the Office of Human Capital Management. DFC did not retain copies of these written requests and, therefore, did not have any evidence to support whether or not a request for cancellation or deactivation was ever made. DFC believed that ODA monitored its own account listings and, accordingly, it did not complete an analysis of

open and active Disaster accounts. However, ODA believed that DFC deactivated Disaster travel cards when it received Final Salary Clearance forms from personnel and that DFC monitored the account listings. As a result of the miscommunication between the two offices, separated Disaster employees were able to retain open and active travel card accounts.

In order to ensure the integrity of the travel card program, SBA needs to ensure that only current SBA employees maintain travel cards. There is a potential risk of cardholder activity by non-SBA employees, which may result in increased delinquency. While none of the 264 active accounts we identified had any charges after the employee separated from SBA, we identified a cardholder who charged \$1,550.80 on his travel card when he was not an SBA employee (his travel card was cancelled prior to the start of our audit, so is not one of the 264 cardholders we identified). This individual failed to make payments on the account, and the account was eventually charged off by the issuing bank. SBA cannot manage the delinquency of separated employees, unlike current SBA employees, since SBA cannot take remedial actions against separated employees. Therefore, it is imperative that the agency review the open accounts on a regular basis to ensure that they are held only by current SBA employees.

Recommendations:

We recommend that the Chief Financial Officer:

- 2A. Develop formal written procedures that (1) clearly identify the roles and responsibilities of all offices, e.g., DFC and Disaster Assistance for ensuring that separated employee cards are cancelled or deactivated; and (2) require maintenance of appropriate documentation to support performance of these actions.
- 2B. Establish a formal policy for DFC to conduct scheduled periodic reviews of the open and active account listing, to retain records of such reviews, and to immediately cancel all former SBA employees with open travel card accounts.

Management Response

The CFO did not specifically agree or disagree with Recommendations 2A and 2B. He summarized the process used to ensure that former SBA employees no longer have travel cards.

Finding 3: Purchase Card Approving Officials Failed to Review Purchase Card Statements

Purchase card statements in various SBA offices showed no evidence that approving officials reviewed the statements to ensure that the charges were for authorized purchases made in accordance with procurement regulations. SOP 00 12 1, *The Government Credit Card Program*, requires this review. Failure to adhere to these requirements could result in fraudulent and erroneous charges going undetected and the Government ultimately paying for these charges. In the limited review we conducted, we determined that inappropriate charges were made on purchase cards and paid by SBA. SBA did not effectively reinforce the need to conduct the required reviews.

The audit of the National Women's Business Council (NWBC), audits of SBA's Fiscal Year 2001 and 2002 Financial Statements, our review of 40 transactions at an SBA office, and reviews of five transactions from five additional SBA offices disclosed that SBA purchase card approving officials failed to sign and date the statements to evidence the required review. The former NWBC Executive Director acknowledged that she did not review the purchase card statements. Also, three of the five offices reviewed in SBA's Fiscal Year 2001 Financial Statements audit and 13 of 81 credit card statements reviewed in SBA's Fiscal Year 2002 Financial Statements audit revealed credit card statements lacking evidence of review by the approving officials.

SOP 00 12 1 requires approving officials to review purchase card statements and to certify that the cardholder's statements are for authorized purchases made in accordance with procurement regulations. Failure to adhere to this requirement could result in inappropriate and erroneous charges going undetected and the Government ultimately paying for these charges. In the limited review that we conducted, we found inappropriate items charged to purchase cards such as gifts (a Mont Blanc pen and Palm organizers), water service for an office, home internet service, and circus tickets. One office inappropriately circumvented the purchase card limit by splitting the transaction into two smaller transactions. While one of the approving officials stated that she thought some of the inappropriate charges were appropriate, it is more likely that cardholders and approving officials will be more diligent in ensuring that purchases are made in accordance with procurement regulations if required to follow the requirement to certify that the purchases are authorized and appropriate.

Though the audit report, "Audit of SBA's FY 2001 Financial Statements Management Letter" highlighted the lack of reviews being performed, SBA did not effectively reinforce the need for the reviews to SBA employees. SBA issued a policy notice on June 4, 2002, Control No. 0000-1600, to address the approving officials' failure to review the reconciled statements. However, the policy notice neglected to include the specific requirement to review the credit card statements on a monthly basis and to sign and date the statements to evidence this review.

Recommendation:

- 3A. We recommend that the Assistant Administrator for Administration issue a notice to all SBA purchase card approving officials and their supervisors to reinforce the requirement

that approving officials are required to review the credit card statement reconciliations on a monthly basis and certify that payments are for authorized purchases made in accordance with procurement regulations.

Management Response

The Assistant Administrator for Administration stated that the recommendation was addressed on August 22, 2003 by guidance published in SBA Procedural Notice 2000-665, *Audit of Administrative Transactions*.

Evaluation of Management Response

The recommendation has been satisfactorily implemented.

* * *

The findings included in this report are the conclusions of the Office of Inspector General's Auditing Division. **The findings and recommendations are subject to review, management decision, and corrective action by your office in accordance with existing Agency procedures for audit follow-up and resolution.** Please provide your management decision for each recommendation made to you within 30 days from the date of this report using the attached SBA Forms 1824, Recommendation Action Sheet.

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

Attachments



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

Attachment 1
Page 1 of 3

Date: **SEP 2 2003**

To: Robert Seabrooks
Assistant Inspector General for Audit

From: Tom Dumaresq
Chief Financial Officer r 7
L Ex. C A

Subject: Response to the OIG Draft Report on Travel Cards

We have reviewed the draft audit titled "Audit of SBA Travel Card Program and Review of Purchase Card Controls" (draft report). As you heard from my staff, we have some concerns with the audit and findings in the draft report which are described below. In addition, we have a number of suggestions regarding recommendations that could be made to improve the overall travel card program.

Scope of the Audit

The scope of this audit is limited to procedural exceptions identified from a Bank of America "exception" report on 30 employee accounts. Since this is not a statistically valid sample, we believe the finding that "SBA Controls Did Not Adequately Prevent and Detect Inappropriate Travel Card Usage" is a misleading conclusion. Because of the specific bias in the sample, this audit is not a representative picture of the state of overall controls at the SBA. We believe the report should be explicit about the true scope of the audit and clearly state that agency-wide conclusions cannot be drawn from such a sample. In addition, we would prefer that a new, random sample be drawn so that the analysis and findings would be more indicative of the genuine status of agency-wide controls.

The audit report focuses almost exclusively on the Denver Finance Center's (DFC) role in detecting credit card abuse. DFC is the third line of defense. The administrative officers and authorizing/approving officials in SBA offices are the first and second lines of defense. First, the employee's administrative officer is responsible to monitor travel activity by accessing on-line reports regarding travel card transactions and delinquency to keep office managers informed of issues that arise. The supervisor is the official responsible for following-up on adverse information and taking corrective disciplinary action when appropriate. The DFC is also responsible for monitoring travel card activity on a sample basis and providing feedback to supervisors on suspicious activity, besides also processing reimbursement payments, and activating and deactivating cards when instructed. This multi-tiered set of responsibilities is not addressed by the IG report. Since the responsibility for monitoring travel card transactions and taking corrective action is a shared responsibility, we see this as a shortcoming of the audit.

SBA IS AN EQUAL OPPORTUNITY EMPLOYER AND PROVIDER

The Rules of Travel Card Use

The report takes issue with the use of the travel card for valid reimbursable expenses while on local travel. Federal regulations do not prohibit use of the travel card for such valid reimbursable expenses. Indeed, the regulations are quite explicit that the card must be used for all official travel expenses.

◇§ 301-51.1 **What is the required method of payment for official travel expenses?** You are required to use the Government contractor-issued travel charge card for all official travel expenses unless you have an exemption.

The SBA has been quite active in reinforcing the mandatory use of the travel card (SBA Notice 2000-484 dated November 17, 1998, SBA Notice 2000-540 dated April 13, 2000). However, whether “official” travel includes local travel or not has not arisen as an issue. We have interpreted “official” to mean any travel related expense for which the employee is entitled to be reimbursed. The regulations allow agencies the flexibility to make or not make that distinction. The GSA master contract does not address this issue and neither does the agency agreement with Bank of America (BofA). The report is correct to identify this potential conflict between the FTR and the language in the standard BofA cardholder agreement.

The standard BofA cardholder agreement restricts use of the card to travel expenses “away from your official station/duty station in accordance with your agency policy.” Although not documented (a shortcoming needing correction), our agency policy is to allow the use of the card for all valid reimbursable travel expenses – to include local use. In recent conversations with BofA on this topic, they are quite willing to change the language of the cardholder agreement or to issue an amendment that will clarify use of the card for all valid, reimbursable expenses. We have begun steps to implement this change. The vast majority of the OIG’s findings (1,669 out of 1,968 transactions for 85 percent) involve use of the travel card related to variations of this local travel issue, to which we take exception.

Perhaps the OIG should recommend that SBA evaluate the current policy on use of the travel card for local expenses and to modify or amend the BofA agreement if necessary.

Deactivating Travel Cards

The OCFO conducts a bi-annual review of card ownership. In addition to this, the final clearance procedure for departing employees includes a mandatory review and sign-off by DFC on indebtedness (not merely travel card debt) before a final salary can be processed. The DFC, however, is dependent upon the Office of Human Capital Management (OHC) to not process any clearances until the DFC review is complete.

In the past, the DFC has attempted to implement a control which we believe could reduce travel card misuse. All travel cards would be maintained in an “inactive” status. Travel cards would only be activated when someone has authorization to travel. The

control for this on-and-off function would rest with supervisors and administrative officers. Unfortunately, this proposal has been met with extreme resistance from a variety of program offices within the SBA.

Use of Detail Transaction Activity Reports

The audit report is critical of the DFC's use of transaction activity reports. The DFC reviews the detail activity report on a monthly basis for travel card misuse. We believe this report is more reliable than the "exception" report the IG used in their review because it includes all of the transactions rather than only the subset identified in the exception report. We plan to continue to use the detail report and will continue to work with administrative officers in field offices and headquarters to do the same. Perhaps the OIG should recommend that these detailed reports are reviewed and signed by the office head each month, and that this mandatory review and sign-off are included in the Internal Control Review checklist.

Conclusion

Thank you for the opportunity to comment on this report. We hope that you will consider our concerns on the objectives and scope of the travel card audit. I would be happy to answer any questions you may have on this response to your draft report.

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