

AGREED-UPON PROCEDURES REPORT

ON SENSITIVE PAYMENTS

AUDIT REPORT NUMBER 1-20

SEPTEMBER 28, 2001

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

AUDIT REPORT

Issue Date: September 28, 2001

Number: 1-20

To: Joseph P. Loddo
Chief Financial Officer

Cory Whitehead
Acting Assistant Administrator for Administration

Robert L. Gangwere
Acting General Counsel

From: *for* [FOIA Ex. 6] Robert G. Seabrooks
Assistant Inspector General for Auditing

Subject: Agreed-upon Procedures Report on Sensitive Payments

Attached is the agreed-upon procedures report on sensitive payments issued by Cotton & Company LLP. The report discusses the following issues: (1) appropriated funds may have been used to pay for some of the former Administrator's political travel, (2) SBA paid some costs of personal travel by a former regional administrator, (3) SBA's travel order review process was not always thorough, and (4) SBA offices did not always comply with required procedures over sensitive payments.

The findings included in this report are based on the auditors' conclusions. 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 us your proposed management decision for each recommendation on the attached forms 1824, Recommendation Action Sheet, within 30 days. Should you or your staff have any questions, please contact Robert Hultberg, Director, Business Development Programs Group at (202) 205-[FOIA Ex. 2]

Attachments

COTTON & COMPANY LLP

auditors ♦ advisors

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES TO SENSITIVE PAYMENTS

Inspector General
U.S. Small Business Administration

We performed the procedures enumerated below, which were agreed to by the U.S. Small Business Administration (SBA), Office of Inspector General (OIG), solely to assist it in evaluating the appropriateness of sensitive payments made by SBA in Fiscal Year (FY) 2000. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

SBA has approximately 4,600 employees. We identified 100 of these as being in positions allowing significant discretion in the use of agency funds. Senior executive service (SES)-level officials and political appointees were included in this group of 100 individuals. For testing, we obtained a sample of 36 from the 100: SBA's 4 presidential appointees, 14 employees selected by the OIG, and 18 employees randomly selected from the remaining population. We applied the following procedures for the sample of 36 employees.

1. We identified the destination of all travelers to verify that frequent trips to the same location were appropriately justified, and that the travel was commensurate and consistent with the employee's position and duties for official travel.
2. From the 36 employees sampled, we judgmentally selected 220 travel vouchers to determine if travel was authorized and approved; supporting documentation exists and agrees with amounts recorded on the voucher; and amounts claimed are in accordance with the *Federal Travel Regulations* (FTR) and are correctly calculated.
3. We reviewed budget logs to determine if payments to contractors or public relations firms were made for travel and, if so, if the travel and payments were appropriate.
4. We reviewed credit card statements issued to the offices of the 36 selected employees to determine if any of the payments were related to travel or entertainment, and, if so, if the payments were appropriate.



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We were not engaged to and did not conduct an examination of sensitive payments, the objective of which would be the expression of an opinion or a disclaimer of opinion on the sensitive payments. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We discuss our findings in the balance of this report.

ADMINISTRATOR'S TRAVEL NOT PROPERLY REVIEWED

Travel by the former Administrator was not always reviewed properly to ensure that appropriated funds were used only for official government travel. One of the trips taken by this Administrator that we reviewed involved travel to Albany, New York, that appeared to be both official and of a political nature. According to the information we obtained, the events on the Administrator's itinerary—a reception and concert on Friday, March 10, 2000, and a breakfast meeting on Saturday, March 11, 2000—were hosted by the New York Assembly Puerto Rican/Hispanic Task Force. Local media described the event as a “local campaign stop in bid for upstate's Hispanic, urban Democrats.” These events were also attended by the former Vice President and the former First Lady of the United States who at the time were candidates for President and U.S. Senate, respectively.

In accordance with the Hatch Act, the SBA Administrator may engage in political activity if costs are not paid with appropriated funds. To ensure compliance with the Hatch Act, SBA's Designated Agency Ethics Official (DAEO) should review the Administrator's travel plans to determine if part or all of the travel may be of a political nature. According to the DAEO, it only makes such a determination when requested to do so by the Office of the Administrator or, occasionally, the Office of the Chief Financial Officer (CFO). For the trip to Albany, the DAEO was not requested to and did not review the Administrator's travel plans.

We recommend that the DAEO periodically provide training and guidance to the Office of the Administrator on recognizing travel that may have combined purposes; and also request the Office of the Administrator to submit any travel plans that may have combined purposes to the DAEO for prior approval. We also recommend that the DAEO review the former Administrator's Albany trip to determine the nature of the trip. If for a combined purpose, we recommend that SBA obtain reimbursement for any amount incurred for other than official business.

SBA PAID COSTS OF SOME PERSONAL TRAVEL BY A REGIONAL ADMINISTRATOR

The official duty station for SBA's former Region VIII Administrator in FY 2000 was Denver, while her residence was in Yankton, South Dakota. During FY 2000, this regional administrator submitted 31 travel vouchers; of these, 27 indicated that travel either originated or terminated in Sioux Falls, South Dakota. Regional administrators have the authority to approve their own travel, which the former Region VIII Administrator did for each of these 27 trips.

Travel vouchers for the 27 trips did not show evidence that the regional administrator calculated personal costs associated with these trips or reimbursed such costs to the government. As a result of travel either originating or terminating in Sioux Falls, the government paid at least \$1,500 in additional costs for at least 10 of the 27 trips.

The FTR and SBA's travel regulation allow SBA employees to combine personal travel with official travel. Additional costs incurred for personal travel may not, however, be paid with government funds, and government credit cards may not be used to pay for such travel. Further, reimbursement is limited to the cost of travel by a direct route or on an uninterrupted basis (FTR Section 301-10.8). The

traveler is responsible for any additional costs. SBA's SOP 20 11 requires advance authorization for travel, including personal travel and personal leave.

We recommend that the CFO issue a procedural notice reminding employees of the importance and need to follow and adhere to SOP 20 11 regarding personal travel. We also recommend that the CFO revise its policy and procedures to require an appropriate higher-level official to approve all official travel combined with personal travel, including travel by individuals with authority to self-approve trips. Further, we recommend that the CFO provide a periodic report to supervisors of individuals with self-approval authority to assist them in monitoring travel.

TRAVEL ORDER REVIEW PROCESS NOT ALWAYS THOROUGH

We reviewed 220 travel vouchers and found noncompliance with the FTR on 10. Although none of the errors resulted in a significant dollar amount, a 5-percent error rate is indicative of an inadequate review process. SBA's Denver Finance Center (DFC) reviews all travel vouchers over \$1,500 and all travel vouchers for employees at grade GS-13 and above. Thus, DFC had reviewed all vouchers we reviewed. Errors are summarized below.

	Unallowable Amount
Traveler claimed and was reimbursed for 2 days of per diem for a 1-day trip.	\$68.00
Traveler submitted a receipt supporting 1 night of lodging, but claimed and was reimbursed for 4 nights of lodging.	145.14
Traveler submitted a receipt supporting lodging at \$217.80 per night for 2 nights, but claimed and was reimbursed at \$235.00 per night—the maximum lodging amount.	34.40
Traveler attended a conference that provided all meals, but claimed and was reimbursed costs of meals and incidental expenses (M&IE).	40.00
Traveler claimed and was reimbursed for M&IE at \$38 per day in a location with an FTR limit of \$30 per day.	16.00
Two travelers claimed and were reimbursed full-day M&IE on the first and last day of travel when the limit is three-quarters of one day.	170.00
Two travelers claimed and were reimbursed lodging expenses in excess of FTR maximums without documentation supporting excess amounts.	504.04
Traveler claimed and was reimbursed for 2 one-way airline tickets on the same day to the same destination originating from different locations.	<u>126.50</u>
	<u>\$1,104.08</u>

We recommend that the DFC Director issue a procedural notice to emphasize the importance of accuracy and documentation for travel orders. We further recommend that the Director develop detailed procedures to ensure that all vouchers are thoroughly reviewed and documentation verified. In addition, we recommend that the CFO provide additional training to voucher examiners as appropriate.

SBA OFFICES NOT ALWAYS COMPLYING WITH PROCEDURES OVER PAYMENTS

We found that some SBA offices did not always follow the SOPs in the following three areas:

Retention of Documentation.

We were unable to review supporting documentation for Office of General Counsel (OGC) credit card purchases, because OGC did not retain credit card purchase records, which includes credit card statements, SBA Form 2 (Requisition for Supplies, Services & Federal Assistance), and receipts for FY 2000. The Office of Advocacy did not retain credit card statements for purchases made in FY 2000.

SBA's Standard Operating Procedure (SOP) 00 12, Chapter 4, 2a (8), states:

Retain credit card purchase records for three years after final payment.
Periodic, random audits will be conducted to ensure compliance and accountability for all VISA purchases.

We recommend that the Office of Administration issue a procedural notice to remind all SBA offices of the need to follow SOP 00 12 regarding record retention of credit card statements and supporting documentation.

Approval of Purchases.

Headquarters program offices did not always provide required information on SBA Form 2. We reviewed 94 of these forms. Box 6, Budget Approval (Initial and Date), was not completed on any of them.

SBA's SOP 00 12 Chapter 4, 2, b (2c) states:

The approving official must ensure that the items purchased were authorized by a Form 2, received the necessary clearances prior to purchase, and were otherwise appropriate.

We recommend that the Office of Administration issue a procedural notice to remind all SBA offices of the need to follow SOP 00 12 regarding use of and requirements for proper completion of SBA Form 2.

Approval of Training and Other Meetings.

SBA program offices do not use SBA Form 1179 (Request for Approval to Hold and/or For Employees to Attend Meeting, Conference, Convention, or Symposium) for meeting planning, as required.

SBA's SOP 20 11 4, Chapter 1, Section 6, c. (1), states:

Travel for conference and meeting attendance and training shall be authorized on a trip-by-trip basis. Attendance to these sessions requires a completed SBA form 1179, Request for Approval to Hold and/or for Employees to Attend Meeting, Conference, Convention, or Symposium.

We recommend that the CFO issue a procedural notice to remind all SBA offices of the need to follow SOP 20 11 regarding the use and requirements for completion of SBA Form 1179.

Management's Response

SBA management generally concurred with findings in the draft report and provided corrective actions (see the attachment). SBA did raise concerns regarding two of the findings in the draft report.

First, regarding review of the Administrator's travel, we had addressed our recommendations to OGC. Based on management comments, we changed this to the Designated Agency Ethics Official (DAEO). Second, regarding the finding on complying with procedures over payments, SBA stated that Form 1179 is no longer required for approval of training and other meetings. SOP 20 11 4, Chapter 1, Section 6, c. (1), does, however, require a completed SBA Form 1179. SBA stated that the SOP is outdated, but it has not issued a revised SOP 20 11.

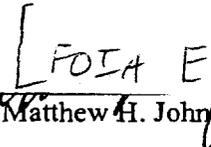
Management's response includes actions it will perform to address our recommendations. When fully implemented, we think these actions will adequately address all findings.

This report is intended solely for the information and use of the SBA OIG and management and is not intended to be and should not be used by anyone other than these specified parties.

We express our appreciation for the assistance provided by all SBA personnel during this agreed-upon-procedures review. Without exception, they were cooperative, helpful, and professional.

Very truly yours,

COTTON & COMPANY LLP

By: [FOIA Ex. 6] 
Matthew H. Johnson, CPA, CGFM

July 11, 2001



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

DATE: SEP 25 2001

TO: Robert G. Seabrooks
Assistant Inspector General for Auditing

FROM: Joseph P. Loddc [FOIA Ex. 6]
Chief Financial Officer

Cory Whitehead [FOIA Ex. 6]
Acting Assistant Administrator for Administration

Robert L. Gangwere [FOIA Ex. 6]
Acting General Counsel

SUBJECT: Review of Sensitive Payments – Response to Draft Report

Thank you for the opportunity to provide comments to the draft report on the Review of Sensitive Payments dated August 16, 2001. This audit has 9 recommendations addressed to our offices. Generally, we agree with the recommendations in the audit report. We have provided general responses and will provide more specific responses to the individual recommendations when we receive the final audit report.

We do have some comments for your consideration in the final audit report. These comments are provided below after the audit recommendations.

FINDING: ADMINISTRATOR'S TRAVEL NOT PROPERLY REVIEWED

Recommendation 1: The draft report recommends that the Office of General Counsel (OGC) periodically provide training and guidance to the Office of the Administrator on how to recognize travel that may be considered mixed travel. Further, the report recommends that OGC emphasize that the Office of Administrator should submit to OGC for review any travel that may be considered mixed travel.

Response: Technically, OGC does not offer this kind of training or guidance; the Designated Agency Ethics Official (DAEO) has done it, historically, because the relevant rules are governed by the Hatch Act. During calendar year 2000, the DAEO conducted a training session to the former Administrator and her staff. Such training consisted of oral presentations and written guidance. Presently, the DAEO has requested the new Administrator to schedule oral briefings to his new staff.

In addition, OGC does not review or clear travel conducted by the Office of the Administrator that may be considered mixed travel. The DAEO performs this function. The DAEO has emphasized the need for this review to the current Office of the Administrator. Nevertheless, the DAEO cannot require or mandate the Office of the Administrator to seek legal advice.

Recommendation 2: In addition, the draft report recommends that OGC investigate the former Administrator's Albany trip to determine if it was indeed both official and political. If this trip was for a combined purpose, the report recommends that SBA obtain reimbursement for any amount incurred for other than official business.

Response: . The DAEO can review any documents or evidence produced by the OIG in order to render a legal opinion. If the DAEO determines that mixed travel occurred and that a proper allocation of expenses had not been made, then the Office of Litigation in OGC will determine all legal recourse available and against whom. However, the DAEO does not "investigate" (i.e., procure outside information or documentation) matters involving former Government employees.

FINDING: SBA PAID COSTS OF SOME PERSONAL TRAVEL BY A REGIONAL ADMINISTRATOR

Recommendation 3: The draft report recommends that the CFO office issue a procedural notice reminding employees of the importance and need to follow and adhere to SOP 20 11 regarding personal travel.

Response: The SBA agrees with this recommendation and will issue a procedural notice. Further, the SBA will investigate the travel payments made to the former Regional Administrator and take action following applicable procedures to obtain reimbursement as an unauthorized expense of any amounts that were paid for her personal travel.

Recommendation 4: In addition, the draft report recommends that the CFO revise its policy and procedures to require an appropriate higher level official to approve all official travel combined with personal travel including individuals with authority to self-approve travel. Further, the report recommends that the CFO provide a periodic report to the supervisors of those individuals with self-approval authority, so that the supervisors can monitor the travel performed.

Response: The SBA issued policy notice 2000-559 effective September 1, 2000 that requires a higher level approval for practically all official travel. This procedure substantially corrected this finding. SBA agrees, however, that mixed travel containing personal and official business should always be reviewed prior to authorization, and we agree to include this requirement in the procedural notice developed under recommendations 3 and 5. Further, the CFO will review its quality assurance process for mixed travel to assure adequate internal control.

FINDING: TRAVEL ORDER REVIEW PROCESS NOT ALWAYS THOROUGH

Recommendation 5: The report recommends that the DFC Director issue a procedural notice to emphasize the importance of accuracy and documentation for travel orders. The draft report further recommends that the Director develop detailed procedures to ensure that all vouchers are thoroughly reviewed and documentation verified.

Response: The SBA agrees to develop a procedural notice to emphasize accuracy and documentation for travel orders. Further, although the SBA currently has detailed procedures over travel voucher processing, the CFO will review its existing procedures and quality assurance over travel processing as part of our implementation of the JAAMS administrative system.

Recommendation 6: In addition, the draft report recommends that the CFO provide additional training to voucher examiners as appropriate.

Response: The SBA will provide training to voucher examiners including any additional emphasis required to improve the quality of the review process.

FINDING: SBA OFFICES NOT ALWAYS COMPLYING WITH PROCEDURES OVER PAYMENTS

Recommendation 7: The draft report recommends that the Office of Administration issue a procedural notice to remind all SBA offices of the need to follow SOP 00 12 regarding record retention of credit card statements and supporting documentation.

Response: The SBA agrees with this recommendation and will issue a reminder notice.

Recommendation 8: The draft report recommends that the Office of Administration issue a procedural notice to remind all SBA offices of the need to follow SOP 00 12 regarding the use and requirements for proper completion of SBA Form 2.

Response: The SBA agrees with this recommendation and will issue a reminder notice.

Recommendation 9: The draft report recommends that the CFO issue a procedural notice to remind all SBA offices of the need to follow SOP 20 11 regarding the use and requirements for completion of SBA Form 1179.

Response: We disagree with this recommendation as the SBA has not used Form 1179 to approve group travel for many years. We believe that the OIG was using an outdated SOP when reviewing this area for compliance. This form was eliminated in the current SOP on SBA travel. This recommendation should be removed.

Thank you again for this opportunity to provide comments on your draft report on the "Review of Sensitive Payments." Please contact us if you have any questions on this response.

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