

Performance Audit Report



The SBA's FY 2012 Reported Improper Payment Rate for Disbursements and Contracting was Inaccurate and Incomplete



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

REPORT TRANSMITTAL

REPORT NO. 14-02

DATE: October 24, 2013

To: Jonathan Carver
Chief Financial Officer

SUBJECT: *The SBA's FY 2012 Reported Improper Payment Rate for Disbursements and Contracting was Inaccurate and Incomplete*

This report presents the results of our project, *Audit of the Small Business Administration's FY 2012 Invoice Payments for Contracting Activities*. Our objectives were to determine: 1) whether Small Business Administration (SBA) management designed and implemented invoicing and payment processes for disbursements and contracting that will prevent improper payments and identify them after payment has been made, and 2) the accuracy of SBA's FY 2012 reported improper payment rate for disbursements and contracting invoices.

Please provide your management decision for each recommendation on the attached SBA Forms 1824s, *Recommendation Action Sheets*, by November 25, 2013.

Consistent with OMB Circular A-50, your response should include the corrective action(s) taken or planned for each recommendation and the target date(s) for completion. If you disagree with the recommendations, please fully explain the reasons for disagreement. Please include the legal basis for disagreement based on interpretation of the law, regulations, or the authority of officials to take or not to take action. You may also propose alternative actions to those recommended that you believe would better address the issues presented in this report.

We appreciate the courtesies and cooperation of the Office of the Chief Financial Officer during this audit. If you have any questions concerning this report, please call me at (202) 205-7100 or Riccardo R. Buglisi, Director, Business Development Programs Group, (202) 205-7489.

/s/
Robert A. Westbrooks
Deputy Inspector General



EXECUTIVE SUMMARY:

The SBA's FY 2012 Reported Improper Payment Rate for Disbursements and Contracting was Inaccurate and Incomplete

October 24, 2013

What the OIG Audited

This report presents the results of the Office of Inspector General's *Audit of the SBA's FY 2012 Invoice Payments for Contracting Activities*. The OIG initiated this review in response to a significant reduction in the improper payment rate for disbursements and contracting in FY 2012. The objectives of this audit were to determine: 1) whether SBA management designed and implemented invoicing and payment processes for disbursements and contracting that would prevent improper payments and identify them after payment has been made, and 2) the accuracy of the SBA's FY 2012 reported improper payment rate for disbursements and contracting invoices.

To achieve our objectives, we identified and reviewed federal and SBA invoicing and payment processes for disbursements and contracting. In addition, we statistically and judgmentally selected 42 of the SBA's 216 sample invoices to review. In order to identify any exceptions (non-compliant items or errors) and to determine the accuracy of the SBA's improper payment rate, we reviewed each of these 42 payments and the associated contracting documentation by applying the SBA's FY 2012 Improper Payment Test Plan.

What the OIG Found

The SBA made significant progress in reducing the improper payment rate for disbursements and contracting from 89 percent in FY 2011 to 9.6 percent in FY 2012. However, our audit determined that the information presented in the SBA's FY 2012 Agency Financial Report (AFR) was inaccurate and the reported improper payment rate for FY 2012 disbursements and contracting was incomplete. Specifically, the 9.6 percent improper payment rate included only a portion of the errors identified as the SBA did not report errors that it determined to be the result of inadequate or missing

documentation. We determined that the complete FY 2012 improper payment rate for disbursements and contracting exceeded 10 percent.

We reviewed 42 of the SBA's 216 sample invoices and found that 18 payments, approximately \$7.63 million, were improper. The SBA's review found that only seven, for a total of \$1.92 million, were improper.

We found that SBA personnel did not consistently apply the FY 2012 Improper Payment Test Plan for disbursements and contracting. Consequently, they classified a number of payments as having met the test plan criteria. In addition, they tested payments not related to contracting disbursements.

OIG Recommendations and Agency Comments

The OIG originally recommended seven actions directed to the Chief Financial Officer to improve financial and contract management at the SBA and significantly decrease the total number of future improper payments. On August 15, 2013, we provided a draft report to SBA management for official comment. On September 16, 2013, we received comments from the Office of the Chief Financial Officer (OCFO). Based on management's comments and documentation provided by the OCFO, we revised the final report accordingly and removed three recommendations.

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Introduction

This report presents the results of our *Audit of the Small Business Administration's FY 2012 Invoice Payments for Contracting Activities*. In FY 2011, the Small Business Administration (SBA or the agency) published an improper payment rate of 89 percent for disbursements and contracting. However, in its FY 2012 Agency Financial Report (AFR), the SBA reported an improper payment rate of only 9.6 percent for disbursements and contracting. The Office of Inspector General (OIG) initiated this audit in response to the significant decrease in improper payments reported for disbursements and contracting.

Objectives

There were two objectives for this audit: 1) to determine whether SBA management designed and implemented invoicing and payment processes for disbursements and contracting that would prevent improper payments and identify them after payment has been made, and 2) to determine the accuracy of the SBA's FY 2012 reported improper payment rate for disbursements and contracting invoices.

To meet these objectives, we identified and reviewed federal and agency-specific invoicing and payment processes for disbursements and contracting. In addition, we used the SBA's FY 2012 improper payment review sample of 216 unique disbursements and contracting invoices as our universe. We statistically and judgmentally selected 42 of the 216 invoices to include in our sample. The judgmental portion of our sample included the ten percent of invoices with the highest value, as well as all invoices that were not associated with an SBA contract. We statistically selected an additional ten percent of invoices using a stratified random sampling method. In order to identify any exceptions and to determine the accuracy of SBA's improper payment rate, we reviewed each of these 42 payments and the associated contracting documentation by applying the SBA's FY 2012 Improper Payment Test Plan. See *Appendix II: Payments Reviewed by OIG* for more information on the payments within our sample.

We conducted this audit from November 2012 to May 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

An improper payment is one that should not have been made or one that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. In addition, an improper payment is one made to an ineligible recipient, for ineligible goods or services, or for goods and services not received.¹ Further, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an error. The Improper Payments

¹ OMB Memorandum M-10-13, *Issuance of Part III to OMB Circular A-123, Appendix C*, March 22, 2010.

Elimination and Recovery Act of 2010 (IPERA),² an amendment to the Improper Payments Information Act of 2002 (IPIA),³ expanded the scope of susceptible programs and activities that agencies are required to assess when identifying and estimating improper payments.

In addition, IPERA, Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*,⁴ and OMB Circular A-136, *Financial Reporting Requirements*,⁵ require agencies to report improper payment annual estimate amounts for susceptible programs and activities in their yearly *Performance and Accountability Report* (PAR) or *Agency Financial Report* (AFR). As a result of IPERA's expanded scope, the SBA was required to assess improper payments for disbursements and contracting beginning in FY 2011. Previously, the SBA had not conducted a risk assessment or reviewed improper payments for disbursements and contracting. In its FY 2011 AFR,⁶ the SBA identified disbursements and contracting as a high-risk program and published an 89 percent improper payment rate for the year.

As required by IPERA and OMB Circular A-123, the OIG reviewed the agency's FY 2011 AFR to determine whether the SBA reported improper payments for contracting activities in compliance with IPIA and IPERA. On March 8, 2012, the OIG issued Advisory Memorandum 12-07, *The SBA's Improper Payment Review and Reporting for its Contracting Activities Did Not Comply with IPERA and IPIA Requirements During FY 2011*.⁷ In this memorandum the OIG concluded that the SBA reported an incomplete improper payment rate of 89 percent for FY 2011 contracting activities. In addition, the OIG found that the SBA did not report improper payments for contracting activities in accordance with IPIA and IPERA requirements.

The SBA's Improper Payment Review

Between April 1, 2011, and March 31, 2012, the SBA made 7,622 disbursements for goods and services, totaling approximately \$130 million. The SBA conducted a review of these disbursements using a sample of 216 unique invoices, valued at approximately \$47 million. The assessment covered three areas: invoice accuracy, compliance with contract terms, and invoice processing accuracy. Based on the results of this review, the SBA reported a 9.6 percent or \$12.5 million improper payment rate for contracting. According to the agency's FY 2012 AFR,⁸ the nature of the errors related to administration and documentation errors. The root causes for these payment errors were:

- Inadequate comparison of the invoice to the contract to verify period of performance, labor rates, and categories to ensure they agree;
- Payment accuracy issues where the financial system was not updated with current (at the time of payment) information from the Central Contractor Registry (CCR), now the System for Award Management (SAM);

² Public Law 111-204, *Improper Payments Elimination and Recovery Act*, July 22, 2010.

³ Public Law 107-300, *Improper Payments Information Act of 2002*, November 26, 2002.

⁴ OMB Circular A-123, *Management's Responsibility for Internal Control*, December 21, 2004.

⁵ OMB Circular A-136, *Financial Reporting Requirements*, Revised August 3, 2012.

⁶ U.S. Small Business Administration [Agency Financial Report Fiscal Year 2011](#), November 15, 2011.

⁷ SBA Office of the Inspector General (OIG) [Advisory Memorandum Number 12-07](#), *The SBA's Improper Payment Review and Reporting for its Contracting Activities Did Not Comply with IPERA and IPIA Requirements During FY 2011*, March 8, 2012.

⁸ U.S. Small Business Administration [Agency Financial Report Fiscal Year 2011](#), November 15, 2012.

- Amounts paid were different than what was recommended for payment; and
- Interest over-payments due to improper prompt payment data selection criteria.

FY 2012 Improper Payments Review

The OIG conducted its FY 2012 IPERA review to evaluate the effectiveness of controls and process improvements the SBA had implemented since FY 2011. On March 14, 2013, the OIG issued Evaluation Report 13-13, *Evaluation of SBA's Progress in Reducing Improper Payments in FY 2012*.⁹ As a result of this review, the OIG determined that the SBA developed a corrective action plan, target dates, and implemented corrective actions to address improper payments within disbursements and contracting. Within the scope of this evaluation, however, we were unable to evaluate the accuracy and completeness of agency reporting for FY 2012 disbursements and contracting. Furthermore, we noted that certain payments with documentation errors appeared to have been excluded from the SBA's improper payment calculations. Lastly, the OIG found that the SBA did not reach a management decision or take final action on three of the five recommendations that the OIG made via [Advisory Memorandum 12-07](#), issued on March 8, 2012.

Nature of Limited or Omitted Information

We reviewed a statistical and judgmental sample of SBA's invoice payments for disbursements and contracting from April 1, 2011, through March 31, 2012. The OIG sample was derived from the SBA's FY 2012 improper payment review sample of 216 unique invoices. See Appendices I and II, pages 18 and 20, for additional details.

Review of Internal Controls

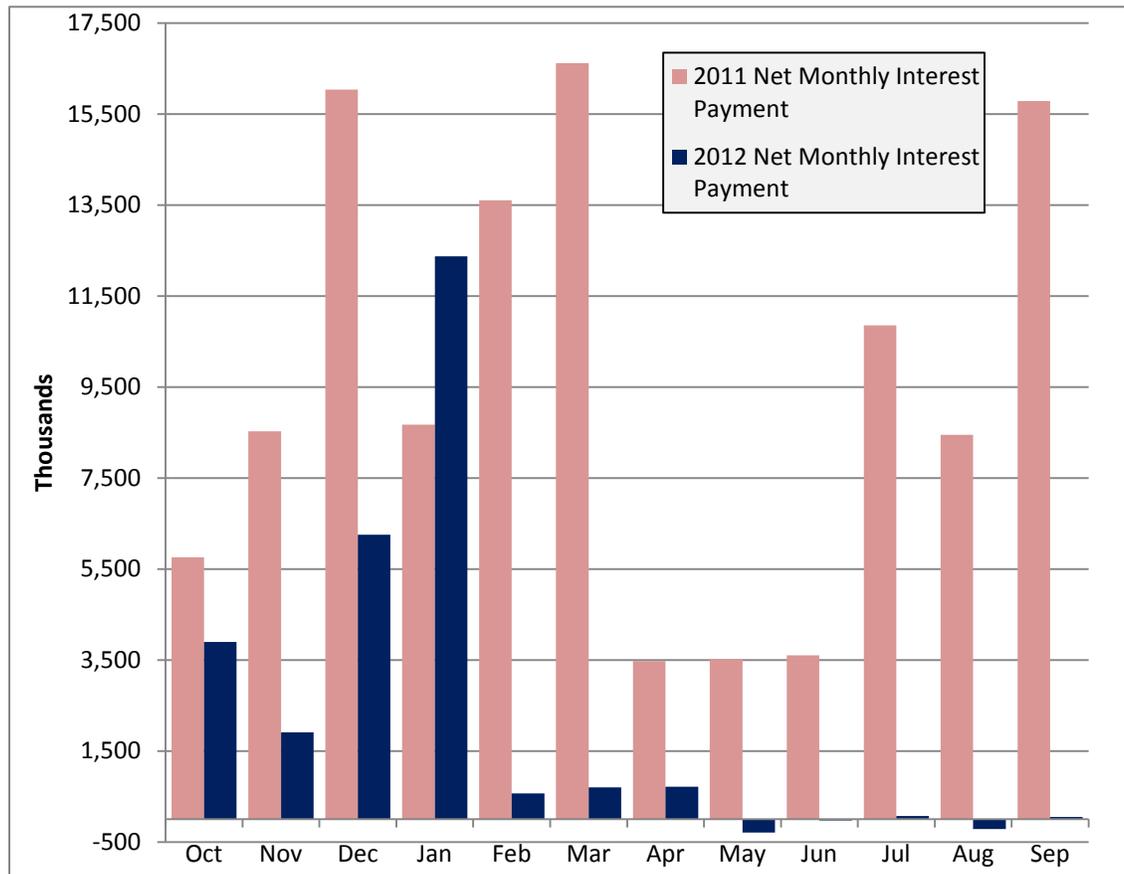
The Office of Management and Budget's Circular A-123 provides guidance to federal managers on improving the accountability and effectiveness of federal programs and operations by establishing, assessing, correcting, and reporting on internal controls. It also requires a strengthened process for conducting management's assessment of the effectiveness of internal controls over financial reporting based on widely recognized internal control standards.

We determined that the SBA Accounts Payable and Administrative Accounting Divisions had planned and implemented a number of improvements to the invoice processing and approval procedures that improved the agency's ability to prevent and identify improper payments. For example, the Denver Finance Center implemented the Joint Administrative Accounting Management System (JAAMS) automated processes for invoice processing and approval on December 1, 2011. Additionally, in January 2012 the Denver Finance Center implemented a system to generate follow-up alerts, which are sent to accounting technicians, contracting officers, and supervisors when a designated individual fails to review invoices or provide approval within an allotted time frame. The SBA also intends for the Procurement Information System for Management (PRISM) and JAAMS to be fully interfaced— at the detail level—no later than February 2014.

⁹ Office of the Inspector General (OIG) [Evaluation Report Number 13-13](#), *Evaluation of SBA's Progress in Reducing Improper Payment in FY 2012*, March 14, 2013.

According to personnel in the Accounts Payable Division, this system has increased the speed with which invoices are reviewed and approved by accounting technicians, Contracting Officer's Representatives (CORs), contracting officers, and approving officials. The changes have also decreased the SBA's monthly interest payments; in FY 2011, the SBA paid average monthly interest of \$9,600. In FY 2012, the SBA paid average monthly interest of only \$2,200. See Figure 1 for a month by month comparison of FY 2011 and FY 2012 interest payments.

Figure 1 FY 2011 and FY 2012 SBA Monthly Interest Payment Comparison



Results

Finding: SBA's FY 2012 Reported Improper Payment Rate for Disbursements and Contracting was Inaccurate and Incomplete

The SBA made significant progress in reducing the improper payment rate for disbursements and contracting from 89 percent in FY 2011 to 9.6 percent in FY 2012. However, our audit determined that this rate was inaccurate and incomplete. As a result, the SBA's FY 2012 Annual Financial Report (AFR) reflects an inaccurate improper payment rate for disbursements and contracting.

IPERA Compliance Requirements

Agencies must meet the following requirements in order to comply with IPERA:

- Publish a Performance and Accountability Report (PAR) or AFR for the most recent fiscal year and publish that report and any accompanying materials required by OMB on the agency website;
- If required, conduct a program specific risk assessment for each program or activity as required by the IPIA;
- If required, publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment;
- Publish programmatic corrective actions plans in the PAR or AFR;
- Publish and meet annual reduction targets for each program assessed to be at risk and measured for improper payments; and
- Report a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR.

Office of Internal Controls Personnel Did Not Consistently Apply the FY 2012 Improper Payment Test Plan for Disbursements and Contracting

The SBA developed a test plan for conducting its FY 2012 improper payment review for disbursements and contracting. The SBA hired a Certified Public Accounting (CPA) firm to conduct this review in accordance with the test plan. However, the CPA firm's personnel did not receive the appropriate SBA security clearances and were directed to cease work prior to completing their review. Consequently, personnel from the SBA's Office of Internal Controls completed the review. According to personnel from the Office of Internal Controls, they did not review any of the payments that the CPA firm determined to be proper; rather, their review focused on those payments for which the firm identified one or more exceptions. The SBA used the term "exception" to identify errors in the invoice processing and payment procedures for each of the payments included in its sample of 216 unique invoices. If a payment contained at least one exception, the SBA categorized the payment as improper.

We determined that Office of Internal Controls personnel did not consistently apply the test plan when completing the FY 2012 improper payment review for disbursements and

contracting. Specifically, the SBA's FY 2012 Improper Payment Test Plan for Acquisitions required that:

- each invoice include elements of a proper invoice;¹⁰
- invoices were submitted in accordance with contract terms and conditions;
- payments were properly approved, paid promptly, in the correct amount, and a single time; and
- the routing and account numbers matched banking information from the Central Contractor Registration (CCR) or the System for Award Management (SAM).¹¹

However, the SBA's review did not conform, in all instances, to these requirements. Based on our analysis of the 42 payments using the SBA's FY 2012 Improper Payment Test plan, we determined that had the agency adhered to the test plan, it should have identified 19 improper payments associated with these 42 payments. Instead, the SBA's review identified seven improper payments.

In addition, 3 of the 42 payments in our sample were not associated with a contract. Two of these payments were for legal settlements and one was for an Intergovernmental Personnel Act agreement. Since these three payments were not representative of disbursements related to contracting, they should have been removed from the SBA's sample. Instead, SBA personnel applied the test plan to these payments as if they were disbursements related to contracting and classified many of the required attributes as having been met without exception or as "not applicable." The SBA classified the three payments, which totaled about \$83,000, as proper payments. While we did not assess the SBA's entire sample, it is possible that other payments not related to contracting and disbursements were included in the SBA's sample and classified as proper payments. Consequently, including the results of these unrelated payments may have impacted the improper payment rate calculation.

The SBA's Testing Resulted in Various Improper Payment Rate Calculations

The SBA's test results led to several different improper payment rate calculations. According to personnel from the SBA's Office of the Chief Financial Officer (OCFO):

- the first calculation, 9.6 percent, which the SBA reported in its FY 2012 AFR, included payment, interest, and documentation errors;
- the second calculation, 12.5 percent, consisted of documentation errors that were identified and corrected after payment but prior to testing, or did not impact the SBA's ability to determine whether a payment was proper; and
- the third calculation, 22.1 percent, represented the improper payment rate had the SBA failed to correct the documentation errors identified in the second calculation.¹²

¹⁰ Federal Acquisition Regulation (FAR) Part 32.905(b)(1)(i)-(x).

¹¹ The System for Award Management (SAM) combines the Central Contractor Registry (CCR), the Federal Agency Registration (Fedreg), the Online Representations and Certifications Application (ORCA), and the Excluded Parties List System (EPLS). The transition occurred on July 30, 2012.

¹² See Appendix III: Final Statistician Improper Payment Calculations for more information.

Further, OCFO personnel stated that based on the test results, these calculations, and OCFO management determinations, the improper payment rate for disbursements and contracting was 9.6 percent, as reported in the agency's FY 2012 AFR. However, we determined that the improper payment rate reported in the agency's FY 2012 AFR for disbursements and contracting was inaccurate and incomplete. Specifically, we found that the 9.6 percent improper payment rate included only a portion of the total errors identified because the SBA did not properly apply OMB reporting criteria for IPERA.

According to OMB guidance, an improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. We found that the SBA did not report those errors that it determined did not comply with federal regulations, such as invoices not having the appropriate approval. We also found that the agency did not obtain approval from OMB allowing it to exclude improper payments that were corrected after payment was issued or recovered prior to reporting, as required. (Additional information and details on the types of documentation errors excluded from the SBA's reported improper payment rate is provided in Appendix IV.) Therefore, we believe the SBA should have included those errors in the calculation of its improper payment rate.

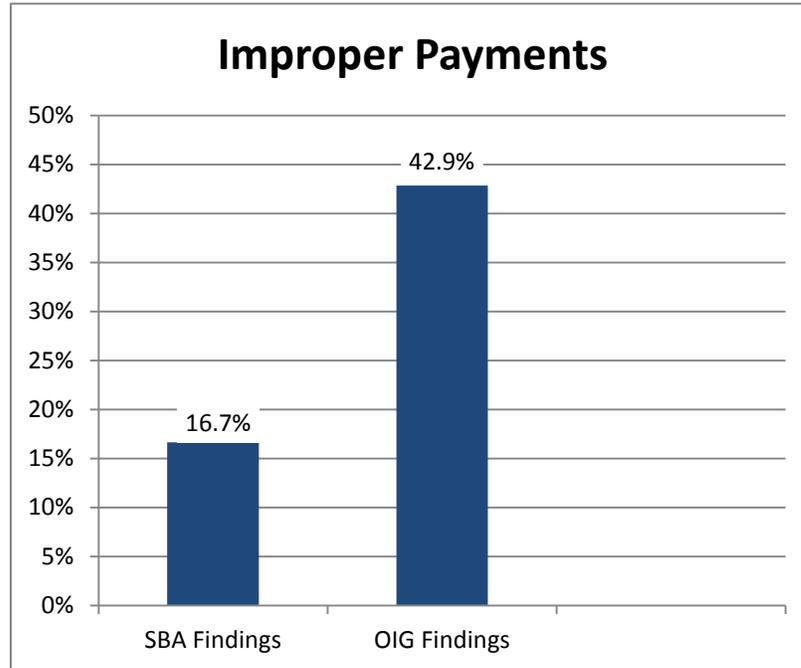
The SBA's omission of some of the identified documentation errors resulted in a reported FY 2012 improper payment rate of less than 10 percent, which is technically in compliance with IPERA requirements. Since the reported rate was less than 10 percent, the SBA was not required to perform corrective actions related to invoice payments for disbursements and contracting. However, had the SBA reported the documentation errors identified in their testing, findings, and results, the complete FY 2012 improper payment rate for disbursements and contracting would have exceeded the 9.6 percent rate that the SBA reported.

Office of Internal Controls Review and Accuracy of Improper Payment Testing

We performed an analysis of the accuracy of the SBA's testing and the improper payment rates that the agency developed along with its statistician. This analysis included a review of 42 of the 216 payments that the SBA sampled for the FY 2012 improper payment review, valued at \$15.99 million. The CPA firm's preliminary review identified 34 of the 42 payments as potential improper payments. After receiving these findings, personnel from the Office of Internal Controls reviewed invoices for which the CPA firm had identified as potential improper payments.

Upon completion of its review, the Office of Internal Controls confirmed that only 7 of the 42 payments (16.7 percent) included in the OIG's review were improper payments. The OIG's analysis of these same 42 payments revealed that 18 were improper (42.9 percent). See Figure 2 for a comparison of the SBA's and OIG's findings.

Figure 2 Percentage of Improper Payments



Approximately \$7.63 Million in Improper Payments Related to 42 Invoices

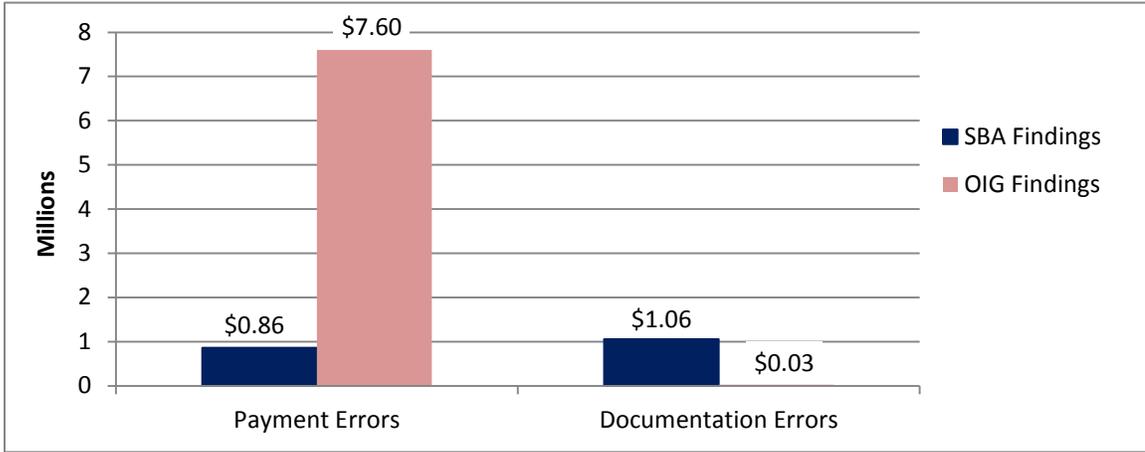
Our review identified approximately \$7.63 million in improper payments related to these 42 invoices, whereas the SBA's review identified \$1.92 million in improper payments related to the same 42 invoices. The SBA determined that 35 of the 42 payments (83 percent) included in our review were proper; however, we determined that only 24 of these 42 payments (57 percent) were proper. Additional significant observations include the following:

- The call order associated with sample item 76 contained a Contract Line Item Number (CLIN) that listed a unit price of \$18,580. However, the General Services Administration (GSA) Blanket Purchase Agreement listed the same CLIN at a unit price of \$5,995. The contract documentation included a Price Negotiation Memorandum, which demonstrated that prices were reasonable as they were based on the GSA Schedule. In addition, based on the contract file documentation, there was no evidence that the SBA negotiated a price other than that which was included in the GSA Schedule. As a result, we determined that the agency overpaid by \$12,585 for each of the four items, a total of \$50,340. The SBA classified this sample item as a proper payment.
- The invoices for sample items 177, 178, and 181 contained charges for a labor category, CPICA CPIC Analyst, that were not authorized by the contract. Therefore, the cumulative payments, \$235,310.01, for this labor category were improper. In its review, the SBA classified sample item 177 as an improper payment because it was approved for payment by unauthorized personnel. However, the SBA excluded sample item 177 from its reported improper payment rate. The SBA identified sample item 181 as an improper payment because it included an underpayment for interest penalties to the vendor. The SBA classified sample item 178 as a proper payment.

- The invoice for sample item 39 contained \$279.33 in insurance fees and \$82.75 in overage charges not authorized by the contract. However, the SBA classified this sample item as a proper payment.

Figure 3 demonstrates the value of invoices included in our review that contained payment and documentation errors.¹³ It also shows a comparison between the SBA’s and the OIG’s findings.

Figure 3 Value of Invoices Categorized by Finding Type



¹³ The Office of Internal Controls defined payment errors as those related to labor rates, payments for goods or services provided outside the period of performance, under- or overpayments, payment for an ineligible good or service, and errors related to banking information. In addition, the Office of Internal Controls defined documentation errors as instances in which documentation was missing, an invoice was not properly approved a COR letter was missing, or the COR letter was dated after invoice approval. The OIG also categorized its findings in this manner to maintain consistency with the SBA’s findings.

FY 2012 Non-Compliance

As previously discussed, the SBA reported an inaccurate and incomplete improper payment rate for FY 2012 disbursements and contracting. While we did not perform test work to determine the exact improper payment rate for FY 2012 disbursements and contracting, we concluded that the rate exceeded 10 percent. Specifically, we determined that the SBA excluded errors it determined were caused by a lack of documentation from its reported improper payment rate, which are further detailed in Appendix IV. Our review of the excluded errors identified \$1.55 million in improper payments that did not comply with applicable federal regulations. Therefore, these payments should have been included in the SBA's reported rate because they were improper payments as defined by OMB guidance. The excluded payments represented 1.19 percent of all contract disbursements for FY 2012. Therefore, using this analysis, the SBA should have reported an improper payment rate of at least 10.79 percent. In addition, our analysis of 42 of the 216 payments that the SBA sampled for the FY 2012 improper payment review determined that the SBA's review did not identify all improper payments. Consequently, the reported improper payment rate would have been higher than 10.79 percent if the SBA had identified and included all improper payment errors. Had the SBA reported an accurate and complete improper payment rate for FY 2012 disbursements and contracting, the agency would have been required to perform, at a minimum, year one IPERA corrective actions.

Conclusion

The SBA inaccurately and incompletely reported improper payments for disbursements and contracting and has not implemented appropriate IPERA corrective actions. The intent of IPERA was to reduce improper payments by boosting transparency and holding agencies accountable for reducing improper payments. As stated in OMB guidance, improper payment errors and mistakes are unacceptable and continue to erode public trust at a time when taxpayers are demanding that their dollars be spent wisely and effectively.

Recommendations

We recommend that the Small Business Administration (SBA) Chief Financial Officer:

1. Include all improper payment errors reportable under Office of Management and Budget (OMB) guidance in the improper payment rate calculation for FY 2013 or obtain OMB approval before excluding errors such as those identified in Appendix IV to this report.
2. Ensure that the individuals responsible for conducting the FY 2013 improper payment review for disbursements and contracting consistently adhere to the test plan.
3. Conduct a review of all invoices pertaining to contract number SBAHQ-11-F-0027 (sample item 39) and recover all unauthorized overage charges and insurance fees from the vendor.
4. Determine whether the charges for the CPICA CPIC Analyst labor category pertaining to contract number SBAHQ-10-D-0010 were proper and within the scope of the contract. If not, take appropriate action(s), including pursuing reimbursement from the vendor, to protect the interest of the government.

Agency Comments and Office of Inspector General Response

On August 15, 2013, we provided a draft of this report to the SBA's Office of the Chief Financial Officer for comment. On September 16, 2013, SBA management submitted its formal written comments, which are included in their entirety in Appendix V. Management concurred with three of the seven recommendations, partially concurred with one recommendation and did not concur with the remaining three recommendations. Based on management's comments and documentation provided by the OCFO, we revised the final report where necessary and removed three recommendations. These changes are discussed in our evaluation of management's comments below. A summary of management's general comments to the report, recommendation-specific comments, and our response follows.

General Management Comments (1) - Background

The Chief Financial Officer (CFO) stated that it conducted an initial improper payment review and documented those efforts in its FY 2011 Annual Financial Report (AFR). The CFO further stated that the SBA did not report an 89 percent improper payment rate to OMB as reported by the OIG. The CFO contended that the first year review of disbursements related to contracting was part of an assessment process, and as confirmed by OMB, the agency was not required to conduct both the risk assessment and establish the measurement and methodology within the same year. As such, management believes that FY 2012 was the first year IPERA reporting was required for contracting and disbursements.

The CFO stated that the CPA firm it contracted with to perform the improper payment testing and to provide the statistical calculations required by IPERA completed both tasks, contrary to what the OIG reported. Further, the CFO stated that the OIG did not request documentation supporting how differences between the OCFO's and the CPA firm's review were resolved. Management stated that it provided the OIG with the final test matrix, which they believed was the most accurate. According to management, the OIG obtained the test matrix directly from the CPA firm without approval from the COR. Therefore, OCFO had no knowledge of any discrepancies.

OIG Response

The OIG previously addressed issues related to FY 2011 IPERA in OIG Report Number 12-07, *The SBA's Improper Payment Review and Reporting for its Contracting Activities did not Comply with IPERA and IPIA Requirements During FY 2011*, issued on March 8, 2012. However, based on management's comments that they did not report a rate of 89 percent in the FY 2011 AFR, we revised the final report to read as the "SBA published an improper payment rate of 89 percent for disbursements and contracting" instead of reported.

The Inspector General Act of 1978 gives the OIG the authority to access all records that relate to an audit. Therefore, the OIG did not require permission from the COR to request audit documentation from the CPA firm contracted by the OCFO to conduct the IPERA review. The CPA firm agreed to meet with the OIG and to discuss the testing they conducted for the IPERA review. The project manager who supervised the IPERA review stated that his team obtained and reviewed initial documentation and information for the SBA's entire sample, but did not validate and finalize findings with SBA procurement and finance personnel. In addition, the project manager stated that he did not review the work performed by his staff because of the

timing of the SBA's request to cease all work related to the contract. Further, both the partner of the CPA firm and the project manager stated that they completed a preliminary review but did not conduct follow-up or verification of any exceptions, or reach any conclusions. As a result, the OIG concluded that the CPA firm did not complete its IPERA review for contracting and disbursements.

The OIG obtained documentation from the OCFO that showed the differences between the OCFO's review and the CPA firm's review and the exceptions noted during each. After reviewing this documentation, the OIG removed the sentence "None of the SBA's documentation identified or explained the differences between the two reviews and the exceptions noted during each" from the final report.

General Management Comments (2) - Corrective Actions

Management stated that although it did not report an improper payment rate to OMB in its FY 2011 AFR, it recognized the need for continuous improvement and created a Corrective Action Plan for 2011, which was provided to the OIG. Management also stated that the Corrective Action Plan was updated in 2012, at management's own initiative, and the updated plan was submitted to the OIG.

OIG Response

On December 7, 2012, the OIG received and accepted the OCFO's Corrective Action Plan for FY 2012. This plan also incorporated corrective actions for FY 2011.

General Management Comments (3) - Review of Improper Payments

Management stated that upon receipt of the OIG's initial results in May 2013, the OCFO provided the OIG with more information and documentation to resolve several issues identified by the OIG. Therefore, the OCFO questions the OIG's statement that the improper payment rate reported in the AFR was significantly misstated. The OCFO believes that it has adequate documentation to support its determination of payment propriety.

Management also disputed two improper payments—sample items 53 and 76—identified by the OIG. Management stated that it has the labor rates associated with the contract for sample item 53 and would provide the rate sheet to the OIG upon request. Management also stated that the BPA for Sample Item 76 required a minimum of 10 items to receive the volume discount of \$5,995 per item. Because the SBA only required four items, it could not take advantage of the discounted price and paid \$12,585 per item.

OIG Response

The OIG conducted a thorough review of the 42 payments within our sample. We obtained the contract files for each sample item from the SBA Denver Finance Center. We determined whether each invoice was properly reviewed and paid by following the SBA's Improper Payment Test Plan. Upon receipt of our initial results in May 2013, the OCFO provided the OIG with additional contract information to resolve documentation issues identified by the OIG. While we were able to resolve most of the documentation issues with the information provided by the OCFO, our findings remained intact. Further, we identified errors in the OCFO's review that were excluded in the SBA's reported improper payment rate. Had the SBA included errors

that did not comply with applicable federal regulations the SBA should have reported a rate of at least 10.79 percent. In addition, our analysis of 42 of the 216 payments that the SBA sampled for the FY 2012 improper payment review determined that the SBA's review did not identify all improper payments. Consequently, the reported improper payment rate would have been higher than 10.79 percent if the SBA had identified and included all improper payment errors.

The OIG obtained the contract file for sample item 53 from the SBA Denver Finance Center. We did not find documentation that contained labor rate categories within the contract file. Upon request, the OCFO provided a copy of the labor rate sheet to the OIG. We contacted the SBA Denver Finance Center to validate the labor rate sheet and confirmed that it was incorporated in the contractor's proposal, which was not included in the contract file at the time of our site visit. As a result, we removed sample item 53 as an improper payment from the final report.

The call order associated with sample item 76 contained a CLIN that listed a unit price of \$18,580. However, the GSA Blanket Purchase Agreement listed the same CLIN at a unit price of \$5,995. The contract documentation included a Price Negotiation Memorandum, which demonstrated that prices were reasonable as they were based on the GSA Schedule. The contract file did not contain evidence that the SBA negotiated a price other than that which was included in the GSA Schedule. Management did not provide documentation that showed any price negotiation that resulted in a price of \$12,585 per item. As a result, we maintain the position that the agency overpaid by \$12,585 for each of the four items, a total of \$50,340.

Recommendation 1 - Include all improper payment errors reportable under Office of Management and Budget (OMB) guidance in the improper payment rate calculation for FY 2013 or obtain OMB approval before excluding errors such as those identified in Appendix IV to this report.

Management Comments

Management concurred with the recommendation. The OCFO stated that it will seek OMB guidance on specific items to include in the test plan for improper payments as a means to be consistent with other agencies. Management stated that the OIG required test steps that may not be consistent with other agencies. For example, the OIG required the documentation of COR appointment letters in 2011 and 2012 but they are not required in 2013.

OIG Response

Management's comments were responsive to our recommendation. We consider the management decision for this recommendation as resolved and the recommendation will remain open pending final action. However, we disagree with the comment that the OIG required the documentation of COR letters in 2011 and 2012 in the SBA's test plan but not in 2013. As stated in the OIG audit, *The SBA's Improper Payment Review and Reporting for its Contracting Activities did not Comply with IPERA and IPIA Requirements During FY 2011*, Report Number 12-07, issued on March 8, 2012, the OIG believes that management should reassess its test plan using other knowledgeable contracting personnel and their own reassessment of their process. Further, while the OIG has made observations, it is not the OIG's role to develop OCFO's test plan. The

agency should consider the adequacy of its test plan based on its own analysis and expertise in the acquisition area.

Recommendation 2 - Include a footnote in the FY 2013 AFR stating that the FY 2012 reported improper payment rate for disbursements and contracting was inaccurate unless further guidance from OMB indicates errors such as those identified in Appendix IV to this report should be excluded from the SBA's improper payment rate calculation.

Management Comments

Management did not concur with this recommendation. Management stated that its FY 2012 Improper Payment methodology and rate were consistent with its testing plan.

OIG Response

The OIG removed this recommendation from the final report. By concurring with Recommendation 1, management has demonstrated that going forward it plans to work with OMB to refine its test plan and report the improper payment rate in accordance with OMB guidance.

Recommendation 3 - Conduct year two IPERA corrective actions, as required by OMB guidance. Specifically, work with the OMB Director to review SBA's disbursements and contracting to determine whether additional funding would help the agency come into compliance.

Management Comments

Management did not concur with this recommendation. Management stated that it completed its first year of reporting of disbursements related to contracting in 2012 and therefore is not subject to OMB's guidance for second year reviews. Additionally, the agency does not believe additional funding is necessary for IPERA compliance.

OIG Response

The OIG removed this recommendation from the final report. Management completed year one IPERA corrective actions in FY 2012. Based on management's statement that additional funding is not necessary for IPERA compliance, we determined that completing IPERA year two corrective actions would unduly burden the agency's limited resources.

Recommendation 4 - Ensure that the individuals responsible for conducting the FY 2013 improper payment review for disbursements and contracting consistently adhere to the test plan.

Management Comments

Management concurred with this recommendation. Management stated that the test plan has always been followed, as demonstrated by the completed test matrix that mirrors the test plan. OCFO will continue to follow the test plan as it has every year.

OIG Response

Management's comments were responsive to our recommendation. We consider the management decision for this recommendation as resolved and the recommendation will remain open pending final action.

Recommendation 5 - Conduct a review of all invoices pertaining to contract number SBAHQ-11-F-0027 (sample item 39) and recover all unauthorized overage charges and insurance fees from the vendor.

Management Comments

Management partially concurred with this recommendation. Management stated that there is no evidence that overage charges and insurance fees were part of the contract. The OCFO will perform a review of SBAHQ-11-F-0027 to determine what unauthorized charges may have occurred and take appropriate action based on the results. The OCFO partially concurred because the recommendation says in part to "recover all unauthorized overage charges and insurance fees from the vendor." Management stated that it will determine if recovering the funds is in the best interest of the government.

OIG Response

Management's comments were responsive to our recommendation. The OIG believes that it is in the best interest of both the government and the taxpayers for the OCFO to recover all unauthorized overage charges and insurance fees from the vendor if it can be done in a cost-effective manner. We consider the management decision for this recommendation as resolved and the recommendation will remain open pending final action.

Recommendation 6 - Determine whether an unauthorized commitment(s) occurred for the services performed after the expiration date of call order SBA0001 for contract number SBAHQ-09-A-0024 (sample item 150). If an unauthorized commitment occurred, determine whether ratification or other action is appropriate.

Management Comments

Management did not concur with this recommendation. Management stated that the invoice associated with sample item 150 refers to an incorrect call number, presumably due to a clerical error. OCFO confirmed the invoice billing rates and period of performance to call order SBA0003 and determined the invoice was properly paid from the call's corresponding obligation.

OIG Response

On May 22, 2013, we conducted a teleconference with the Acquisition Division Director regarding call order SBA0001. He confirmed that according to the SBA's records, call order SBA0001 was issued with a period of performance of September 28, 2009,

through September 27, 2010. The Acquisition Director also confirmed that no options were exercised and the period of performance was not extended via modification. The invoice for sample item 150 was for services performed between November 28, 2011, and December 4, 2011, more than a year after the call order period of performance ended. Therefore, we concluded that the cumulative payments were improper. However, based on management's comments to the draft report, the OIG conducted an independent verification in FPDS-NG of all call orders for SBAHQ-09-A-0024. We confirmed that call order SBA0003 was in fact issued with a period of performance that correlated with the period of performance for sample item 150. As a result of this new information, we removed Recommendation 6 from the final report. However, since the invoice for sample item 150 did not include the correct call order number, it did not meet FAR requirements for a proper invoice and should not have been paid. Therefore, sample item 150 remained classified as an improper payment.

Recommendation 7 - Determine whether the charges for the CPICA CPIC Analyst labor category pertaining to contract number SBAHQ-10-D-0010 were proper and within the scope of the contract. If not, take appropriate action(s), including pursuing reimbursement from the vendor, to protect the interest of the government.

Management Comments

Management concurred with this recommendation. Management stated that the CPICA CPIC Analyst labor category did not appear on Task Order SBA0001; however, the rate was the same as a Project Manager. Management stated that it will research and determine if the payments were proper and take appropriate action based on the results.

OIG Response

Management's comments were responsive to our recommendation. We consider the management decision for this recommendation as resolved and the recommendation will remain open pending final action.

Appendix I: Scope and Methodology

We conducted this audit from November 2012 to May 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

There were two objectives for this audit: 1) to determine whether Small Business Administration (SBA) management designed and implemented invoicing and payment processes for disbursements and contracting that will prevent improper payments and identify them after payment has been made, and 2) to determine the accuracy of the SBA's reported FY 2012 improper payment rate for contracting activity invoices.

Between April 1, 2011, and March 31, 2012, the SBA made 7,622 disbursements for goods and services, totaling approximately \$130 million. The SBA's FY 2012 improper payment review for disbursements and contracting consisted of a sample of 216 unique invoices, valued at approximately \$47 million. Based on the results of its review, the SBA reported a 9.6 percent or \$12.5 million improper payment rate for disbursements and contracting in its FY 2012 Agency Financial Report (AFR).

Due to the reduction in the improper payment rate for disbursements and contracting (from 89 percent in FY 2011 to 9.6 percent in FY 2012) and the results of the Office of Inspector General's (OIG's) FY 2012 Improper Payment Elimination and Recovery Act (IPERA) review, the audit team initiated a thorough review of the agency's transactions for disbursements and contracting. To achieve our audit objectives, we identified the SBA's sample of 216 unique invoices as our universe and developed a statistical and judgmental sample of 42 invoices to review. The judgmental portion of our sample included the ten percent of invoices with the highest value, as well as all invoices that were not associated with an SBA contract number. We statistically selected an additional ten percent of invoices using a stratified random sampling method. We obtained copies of these invoices from the Joint Administrative Accounting Management System (JAAMS) and reviewed the electronic approvals for each. The audit team also reviewed the associated contract files to obtain the base contract, all modifications, all task and delivery orders, and all Contracting Officer Representative (COR) designation letters. By following the SBA's approved Improper Payment Test Plan, we determined whether each invoice was properly or improperly reviewed and paid. Additionally, we documented the number and types of errors identified, if any. To obtain an understanding of the development and performance of the FY 2012 improper payments review for disbursements and contracting, the audit team interviewed personnel from the CPA firm responsible for the agency's initial review. We also interviewed personnel from the Office of the Chief Financial Officer (OCFO) and the Denver Finance Center.

Use of Computer Processed Data

We obtained view-only access to the SBA's accounting management system, JAAMS, in order to retrieve invoices, payment data, and electronic approvals for each transaction that we reviewed. Because we were unable to obtain access to Automatic Clearing House (ACH) bank account information in JAAMS, we relied on personnel from the SBA Denver Finance Center to obtain ACH bank account information from the System for Award Management (SAM), formerly the Central Contractor Registry (CCR). In addition, we obtained copies of General Services Administration (GSA) contracts associated with our sample invoices via the GSA Schedules website at www.gsa.gov/portal/category/100611.

Prior Coverage

The SBA Office of Inspector General issued the following three reports related to the agency's FY 2011 and FY 2012 improper payment reviews for disbursements and contracting:

1. [Report Number 12-07](#), issued March 8, 2012, *The Small Business Administration's Improper Payment Review and Reporting for its Contracting Activities did not Comply with Improper Payment Elimination and Recovery Act and Improper Payment Information Act Requirements during FY 2011*. The OIG reported that the SBA inadequately planned, executed and reported its FY 2011 improper payment review for contracting activities. Specifically, the SBA test plan was inadequate, personnel that performed the review lacked knowledge of agency contracting practices, and the improper payment rate for contracting activities was incomplete and not reported in accordance with Office of Management and Budget (OMB) guidance.
2. [Report Number 12-10](#), issued March 15, 2012, *The Small Business Administration Generally Meets Improper Payment Elimination and Recovery Act Reporting Guidance but Immediate Attention Is Needed to Prevent and Reduce Improper Payments*. The OIG reported that the SBA generally met minimal IPERA reporting requirements for FY 2011. In addition, the review found that the SBA needed to improve the accuracy and completeness of reporting, the sufficiency of improper payment recapture activities, and the quality of corrective action plans. Further, the audit team identified significant internal control weaknesses in the accuracy and completeness of reported information, and the use and deployment of corrective action plans.
3. [Report Number 13-13](#), issued March 14, 2013, *Evaluation of SBA's Progress in Reducing Improper Payments in FY 2012*. The OIG reported that the SBA's efforts to prevent and reduce improper payments have resulted in significant progress since the FY 2011 assessment. In addition, the SBA was generally compliant in meeting the minimum requirements in accordance with OMB guidance. Further, the SBA generally met all IPERA reporting requirements, although the audit team was unable to evaluate the accuracy and completeness of improper payments reported for disbursements and contracting.

Appendix II: Payments Reviewed by the OIG

Sample Number	Invoice Number	Invoice Date	Total Paid (\$)	Contract Number
7	001033(010312)	3 January 2012	\$ 166,486.40	SBAHQ-09-C-0021
11	002025(050211)	2 May 2011	375,281.52	SBAHQ-09-C-0021
13	002027(070111)	1 July 2011	381,016.04	SBAHQ-09-C-0021
20	002035(030112)	1 March 2012	418,093.44	SBAHQ-09-C-0021
33	031312SA	13 March 2012	40,000.00	Not associated with a contract.
36	0600991619(053111)	31 May 2011	460,665.39	SBAHQ-08-A-0043
39	0998097976(072311)	23 July 2011	8,776.91	SBAHQ-11-F-0027
40	1007513802(033111)	31 March 2011	542,660.25	SBAHQ-08-F-0282
41	1007513802(033111)A	31 March 2011	542,660.30	SBAHQ-08-F-0282
42	1007513803(063011)	30 June 2011	542,660.30	SBAHQ-08-F-0282
43	1007513803(063011)A	30 June 2011	542,660.25	SBAHQ-08-F-0282
44	1007513804(093011)A	30 September 2011	542,660.27	SBAHQ-08-F-0282
45	1007513804(093011)B	30 September 2011	542,660.28	SBAHQ-08-F-0282
50	1038816801(123111)	31 December 2011	1,176,590.00	SBAHQ-08-F-0282
53	1040317(091011)	10 September 2011	339,083.91	SBAHQ-10-C-0019
56	11(083111)	31 August 2011	84,263.61	SBAHQ-10-C-0038
63	1290011(091511)	15 September 2011	20,665.56	SBAHQ-10-C-0051
64	1303030Q0025RAT	27 September 2011	421,689.84	Ratification for Unauthorized Procurement Action
65	15048844(081811)	18 August 2011	512,804.32	SBAHQ-09-C-0033
66	15048844A(081811)	18 August 2011	512,804.33	SBAHQ-09-C-0033
76	1784(091911)	19 September 2011	454,897.11	SBAHQ-11-F-0127
81	2011077(123111)	30 December 2011	250,478.72	SBAHQ-11-D-0003
87	2020530002(012011)	20 January 2011	29,009.96	Not associated with a contract.
96	27SEP2011(092711)	27 September 2011	233,443.94	SBAHQ-10-C-0028
106	452124(090111)A	1 September 2011	2,374.00	SBAHQ-11-M-0059
109	5(112111)	21 November 2011	501,515.43	SBAHQ-11-D-0002
120	6425(040911)	9 April 2011	29,484.54	SBAHQ-09-C-0008
126	8(053111)	31 May 2011	60,774.62	SBAHQ-10-C-0031
133	B00431727(102111)	21 October 2011	863,987.91	SBAHQ-10-F-0255
137	CP84438r2(062011)	20 June 2011	711,059.67	SBAHQ-07-F-0040
139	DC0752110431I	23 June 2011	13,500.00	Not associated with a contract.
143	FMLP008(093011)	30 September 2011	828,418.50	SBAHQ-07-C-0017
150	INV0000000108(010912)	9 January 2012	94,969.00	SBAHQ-09-A-0024
167	INV0601062544001(101911)	19 October 2011	446,145.00	SBAHQ-08-A-0043
168	INV0601062548(101911)	19 October 2011	534,882.27	SBAHQ-08-A-0043
169	INV0601062548A(101911)	19 October 2011	534,941.70	SBAHQ-08-A-0043
177	INV060194947(060611)	6 June 2011	378,900.69	SBAHQ-10-D-0010
178	INV060197593(070611)	6 July 2011	333,875.31	SBAHQ-10-D-0010
181	INV060203331(100611)	6 October 2011	455,480.58	SBAHQ-10-D-0010
185	INV102111SBALEASE004FINAL(102111)	21 October 2011	629,149.00	SBAHQ-07-M-0411
199	SBAIM0079(051011)	10 May 2011	101,669.12	SBAHQ-08-C-0009
204	SBAW048(033111)	31 March 2011	322,399.83	SBAHQ-07-C-0009

Appendix III: Final Statistician Improper Payment Calculations

This table represents the SBA statistician’s final improper payment rate calculations for contracting and disbursements. The SBA requested that its statistician calculate various improper payment rates in order to identify high-risk areas for improper payments within contracting and disbursements.

Total Payments: \$129,905,921.74

Strata	Total Payment and Interest Accuracy	Documentation Accuracy	Payment, Interest, and Documentation Accuracy	Payment Accuracy Without CCR	Sample Count (including items sampled twice)
100 Percent Sample	\$3,670,249.00	\$1,245,293.00	\$4,914,542.00	\$3,141,945.00	75
PPS Sample	\$8,841,022.00	\$14,933,490.00	\$23,774,512.00	\$4,500,116.00	150
Improper Payment Total	\$12,511,271.00	\$16,178,783.00	\$28,690,054.00	\$7,642,061.00	225
Improper Payment Percentage	9.6%	12.5%	22.1%	5.9%	

Appendix IV: Documentation Errors the SBA Identified in its Review but Excluded from Its Improper Payment Rate Calculation

Sample Number	Invoice Number	Total Paid (\$)	The SBA's Description of Error	Federal Regulation Non-Compliance
35	0600955902R(030111)A	\$420,247.00	Approval by Contracting Officer (CO) or Contracting Officer's Representative (COR) / Point of Contact (POC) was not evident.	Federal Acquisition Regulation (FAR) 32.905(c).
37	06291102(062911)	32,203.50	Vendor address not listed on invoice.	FAR 32.905(b)(1)(i).
38	07151101(071511)	27,889.00	Vendor address not listed on invoice.	FAR 32.905(b)(1)(i).
46	100SBA(072611)	97,831.16	Invoice does not reference contract number.	FAR 32.905(b)(1)(iii).
57	11103(050211)	203,557.49	Approval by CO or COR / POC was not evident.	FAR 32.905(c).
74	160287948(072211)	2,114.12	Invoice does not reference contract number; Approval by CO or COR/POC was not evident; Contract stated to reference requisition and contract numbers but the invoice does not reference these numbers.	FAR 32.905(b)(1)(iii); FAR 32.905(c); FAR 32.905(b)(1)(x).
98	3(022212)	35,000.00	Contract lists 14 cities for training events. The invoice was for a conference in Orlando, Florida, which was not one of the 14 cities. Per discussion with COR, the training event location changed from New Orleans to Orlando. A contract modification was not done. The CO later offered to complete a modification to bring the contract into compliance.	31 U.S.C. § 1501(a)(1).
128	823606757(100111)	37,519.61	Approval by CO or COR / POC was not evident.	FAR 32.905(c).
146	INV0000000069(060311)	119,272.00	Approval by CO or COR / POC was not evident.	FAR 32.905(c).
172	INV060175424(030311)	55,255.55	Approval by CO or COR / POC was not evident.	FAR 32.905(c).
177	INV060194947(060611)	378,900.69	Approval by CO or COR / POC was not evident.	FAR 32.905(c).
188	L0052(050411)	138,722.44	Vendor address not listed on invoice.	FAR 32.905(b)(1)(i).
	TOTAL	\$1,548,512.56		

Appendix V: Agency Comments



U.S. SMALL BUSINESS ADMINISTRATION

WASHINGTON, D.C. 20416

To: Robert A. Westbrooks
Assistant Inspector General for Auditing

From: Jonathan I. Carver
Chief Financial Officer

Date: September 16, 2013

Re: Response to Draft Report on SBA's FY 2012 Reported Improper Payment Rate for Disbursements and Contracting was Inaccurate and Incomplete

In the subject report, the Office of Inspector General states that the Agency inaccurately and incompletely reported improper payments for disbursements and contracting and has not implemented appropriate Improper Payment Elimination and Improvement Act of 2012 (IPERA) corrective actions. The Office of the Chief Financial Officer takes the accuracy of payments and the reporting of improper payments very seriously and has taken significant steps to improve implementation of IPERA.

Response to Draft Report

Background

The report states that OCFO published an 89 percent improper payment rate for 2011 and did not identify a root cause for this improper payment rate, as required by OMB. The OCFO conducted an initial improper payment review and documented those efforts in the 2011 Annual Financial Report (AFR). The SBA did not report an 89 percent improper payment rate to OMB. The first review year of disbursements related to contracting was part of the assessment process, as outlined in OMB's IPERA guidance and discussed in the AFR. The reporting requirements, confirmed by OMB, do not require the agency to conduct both the risk assessment (Step 1) and establish the measurement and methodology (Step 2) within the same year. As such, Steps 3 and 4 (Implementing a plan to reduce improper payments and Reporting annual estimates and progress in reductions, respectively) were conducted in 2012, the first year that reporting estimated rates was applicable. In consultation with OMB and the OIG, the 2011 assessment

was reflected in the AFR narrative but did not report any estimated rates in the requisite reporting table. The root cause was also documented in the AFR. After the 2011 review the OCFO implemented the OIG's recommendations to enhance the first year of reporting in 2012.

In 2012, OCFO contracted with a CPA firm to perform improper payment testing and to provide the statistical calculations required by IPERA. The CPA firm completed both tasks, contrary to what the OIG report indicates. The OIG has given no evidence to indicate that the CPA firm did not finish their work and the Contracting Officer Representative (COR) has verified that the service was delivered. OCFO reviewed the CPA firm's test matrix to ensure it was complete and further assessed any exceptions that were noted. During the review of exceptions, OCFO located or obtained missing documentation to determine the payment to be proper in many cases, which is consistent with OMB guidance. Although the OIG report states "None of SBA's documentation identified or explained the differences between the two reviews and the exceptions noted during each," OCFO has documentation to demonstrate how each issue was resolved, but was never asked by the OIG to provide such documentation. OCFO provided the OIG with the final test matrix which was believed to be the most accurate. OIG obtained the contractor's test matrix directly from the CPA firm, without approval from the COR; therefore, OCFO had no knowledge of the discrepancy issue.

Corrective Actions

Although OCFO did not report an improper payment rate to OMB in 2011, it recognized the need for continuous improvement and created a Corrective Action Plan for 2011, which was provided to the OIG to demonstrate its commitment to accurate payment processing. To reinforce these efforts, the Corrective Action Plan was updated in 2012, at our own initiative, and the updated plan was submitted to the OIG.

Review of Improper Payments

To conduct their review, the OIG obtained invoices and contract documentation independent from OCFO's improper payment review documentation. Upon receiving the initial results of their review in May 2013, OCFO provided more information or documentation to resolve several issues noted by the OIG. OCFO therefore questions the report's statement that the improper payment rate reported in the AFR is significantly misstated. OCFO believes it has adequate documentation to support its determination of payment propriety as reported. As an example, the report contains observations for two specific contracts not included in the recommendations that again demonstrate documentation exists that supports OCFO's test results:

- Sample item 53 for \$339,083.91 is associated with a contract that OIG states did not include labor rates for personnel based on position type and therefore the OIG could not determine if the invoice matched the contracted rates. OCFO determined this sample item as proper as the labor rates associated with the contract were obtained. The rate sheet can be provided if requested by the OIG.
- Sample item 76 states a contract line item number was paid at a unit price of \$18,580 while the contractor's General Services Administration (GSA) Blanket Purchase Agreement (BPA) listed the same unit at a price of \$5,995, indicating an overpayment of

\$12,585 for the unit. The BPA required a minimum of 10 items be purchased to receive the volume discounted price of \$5,995 per unit; SBA had a need for only four items, therefore only four were purchased. Because the minimum order was not met, SBA could not take advantage of the discounted price.

Management's response to the recommendations in the draft report is noted as follows:

- 1. Include all improper payment errors reportable under Office of Management and Budget (OMB) guidance in the improper payment rate calculation for FY 2013 or obtain OMB approval before excluding errors such as those identified in Appendix IV to this report.**

OCFO concurs with this recommendation. OCFO will seek OMB guidance on specific items to include in the test plan for improper payments as a means to be consistent with other agencies. This is an important step as the OIG has required test steps which may not be consistent with other agencies. As an example, the OIG required the documentation of COR appointment letters in 2011 and 2012 but they are not required in 2013.

- 2. Include a footnote in the FY 2013 AFR stating that the FY 2012 reported improper payment rate for disbursements and contracting was inaccurate unless further guidance from OMB indicates errors such as those identified in Appendix IV to this report should be excluded from the SBA's improper payment rate calculation.**

The OCFO does not concur with this recommendation. The FY 2012 Improper Payment methodology and rate is consistent with our testing plan.

- 3. Conduct year two IPERA corrective actions, as required by OMB guidance. Specifically, work with the OMB Director to review SBA's disbursements and contracting to determine whether additional funding would help the agency come into compliance.**

OCFO does not concur with this recommendation. OCFO completed its first year of reporting of disbursements related to contracting in 2012 and therefore is not subject to OMB's guidance for second year reviews. Additionally, the agency does not believe additional funding is necessary for IPERA compliance.

- 4. Ensure that the individuals responsible for conducting the FY 2013 improper payment review for disbursements and contracting consistently adhere to the test plan.**

OCFO concurs with this recommendation. The test plan has always been followed, as demonstrated by the completed test matrix which mirrors the test plan. OCFO will continue to follow the test plan as it has every year.

- 5. Conduct a review of all invoices pertaining to contract number SBAHQ-11-F-0027 (sample item 39) and recover all unauthorized overage charges and insurance fees from the vendor.**

OCFO partially concurs with this recommendation. There is no evidence that overage charges and insurance fees are part of the contract. OCFO will perform a review of SBAHQ-11-F-0027 to determine what unauthorized charges may have occurred and take appropriate action based on the results.

- 6. Determine whether an unauthorized commitment(s) occurred for the services performed after the expiration date of call order SBA0001 for contract number SBAHQ-09-A-0024 (sample item 150). If an unauthorized commitment occurred, determine whether ratification or other action is appropriate.**

OCFO does not concur with this recommendation. The invoice associated with sample item 150 refers to an incorrect call number, presumably due to a clerical error. OCFO confirmed the invoice billing rates and period of performance to call SBA0003 and determined the invoice was properly paid from the call's corresponding obligation.

- 7. Determine whether the charges for the CPICA CPIC Analyst labor category pertaining to contract number SBAHQ-10-D-0010 were proper and within the scope of the contract. If not, take appropriate action(s), including pursuing reimbursement from the vendor, to protect the interest of the government.**

OCFO concurs with this recommendation. The CPICA CPIC Analyst labor category does not appear on Task Order SBA0001; however, the rate is the same as a Project Manager. OCFO will research and determine if the payments were proper and take appropriate action based on the results.

Thank you for the opportunity to review the draft report. Please let me know if you need additional information or have any questions regarding our response.