

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to submit the U.S. Small Business Administration's (SBA) Performance and Accountability Report for FY 2005. This report provides the SBA's program and financial results as required by the Reports Consolidation Act.

FY 2005 was another strong year for the SBA in the area of financial management. SBA's unqualified opinion from its independent auditors reflects the progress we have made and the improved quality of our financial statements. By building on the improved processes and procedures we have put in place over the past several years, the Office of the Chief Financial Officer (OCFO) was able to address virtually all of the issues identified in last year's audit and complete our financial statements within the accelerated schedule for the second year in a row. We made substantial improvements in the internal controls surrounding our subsidy modeling reestimate process as demonstrated by the elimination of this as a material weakness in the audit report this year. We also made substantial progress in improving our financial management and reporting processes, as evidenced by the reduction in findings and recommendations in the audit report compared to last year, but this area continued to be identified as a material weakness by our auditor.

SBA made significant updates to its credit subsidy reestimate models in FY 2003 and FY 2004. Because of these prior improvements, during FY 2005, SBA was able to minimize the changes made to the models and focus on further strengthening the internal control process around the development of the subsidy cost reestimates. All reestimates and the established quality assurance reviews were completed within our planned schedule this year. SBA's numerous internal reviews and the auditor's review of the subsidy estimates yielded only a few findings and concerns which we were able to address in a timely manner. This is a significant improvement for SBA and because the credit programs constitute the vast majority of SBA's financial activity, reflects the marked improvement in the overall quality of our financial statements and our estimation and reporting processes.

In financial management and reporting, SBA was also able to leverage and build on improvements made in prior years. Using our team-based approach, OCFO undertook a number of initiatives to address last year's audit findings. Key initiatives included the following:

- Developed and managed ourselves to a comprehensive plan with firm milestones for meeting the accelerated financial statement deadline;
- Conducted a "best practices" review of other agencies' footnotes and reviewed all existing guidance to improve SBA's footnotes;
- Developed several new analytical procedures that are being conducted monthly and quarterly throughout the year; and
- Worked aggressively with our program offices to ensure all open obligations were legitimate and that completed obligations were closed in a timely manner.

