



**OIG** Office of Inspector General  
U.S. Department of State • Broadcasting Board of Governors

# System Review Report

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September 28, 2018

The Honorable Hannibal "Mike" Ware  
Inspector General  
Office of Inspector General  
Small Business Administration  
409 Third Street, SW, Suite 7150  
Washington, DC 20416

Dear Mr. Ware,

We have reviewed the system of quality control in effect for the year ended March 31, 2018, for the audit organization of the Small Business Administration, Office of Inspector General (SBA/OIG). A system of quality control encompasses SBA/OIG's organizational structure and the policies and procedures established to provide it with reasonable assurance of conformity with *Government Auditing Standards* (GAS).<sup>1</sup> The elements of quality control are described in GAS. SBA/OIG is responsible for designing a system of quality control and fulfilling the requirements of that system to provide SBA/OIG with reasonable assurance that it is complying with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and SBA/OIG's compliance therewith based on our review.

Our review was conducted in accordance with GAS and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed SBA/OIG personnel and obtained a sufficient understanding of the nature of the SBA/OIG audit organization and the design of SBA/OIG's system of quality control to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with SBA/OIG's system of quality control. The selected engagements represented a reasonable cross-section of SBA/OIG's audit organization, with an emphasis on higher-risk engagements. Before concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with SBA/OIG's management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

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<sup>1</sup> GAS was issued by the Comptroller General in December 2011.

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In performing our review, we obtained an understanding of the system of quality control for SBA/OIG's audit organization. In addition, we tested compliance with SBA/OIG's quality control policies and procedures to the extent that we considered appropriate. These tests covered the application of SBA/OIG's policies and procedures on selected engagements. We based our review on selected tests; therefore, we would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

There are inherent limitations in the effectiveness of any system of quality control. Therefore, noncompliance with a system of quality control may not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate. The Scope and Methodology enclosed with this report identifies the SBA/OIG offices that we visited and the engagements that we reviewed.

In our opinion, the system of quality control in effect for the year ended March 31, 2018, for the SBA/OIG's audit organization has been suitably designed and followed to provide SBA/OIG with reasonable assurance that it is in compliance with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. SBA/OIG has received a peer review rating of *pass*. As is customary, we have enclosed a letter dated September 28, 2018 that sets forth findings that we did not consider to be of sufficient significance to affect the opinion we expressed in this report.

In addition to reviewing SBA/OIG's system of quality control to ensure adherence with GAS, we applied certain limited procedures in accordance with guidance established by the CIGIE related to SBA/OIG's monitoring of engagements performed by Independent Public Accountants (IPA) under contract where the IPA served as the principal auditor. We note that monitoring of engagements performed by IPAs is not an audit and, therefore, is not subject to the requirements of GAS. The purpose of our limited procedures was to determine whether SBA/OIG had controls to ensure that IPAs performed contracted work in accordance with professional standards. We did not note any matters concerning SBA/OIG's monitoring of work performed by IPAs. However, our objective was not to express an opinion on this issue and, accordingly, we did not do so.

The review team appreciates the courtesy and cooperation provided by your staff during this review.

Sincerely,



Steve A. Linick  
Inspector General

Enclosure: As stated.



## ENCLOSURE: SCOPE AND METHODOLOGY

We tested compliance with the system of quality control for the audit organization of the Small Business Administration, Office of Inspector General (SBA/OIG), to the extent we considered appropriate. These tests included reviewing 3 of 11 audit reports issued during the period between April 1, 2017, and March 31, 2018. The three performance audit reports that we reviewed are listed in Table 1. We also reviewed eight internal quality control review reports that SBA/OIG prepared between April 1, 2015, and March 31, 2018.

**Table 1: SBA/OIG Audit Reports Reviewed**

Report Number	Report Date	Report Title
17-19	September 28, 2017	Audit of SBA's Microloan Program
18-09	January 19, 2018	Audit of RISE Act Eligibility Controls
18-11	January 29, 2018	Audit of SBA's State Trade Expansion Program

**Source:** Generated by the Department of State OIG on the basis of information provided by SBA/OIG.

In addition, we reviewed SBA/OIG's monitoring of engagements performed by Independent Public Accountants (IPA), where the IPA served as the principal auditor between April 1, 2017, and March 31, 2018. During the period, SBA/OIG contracted for the audit of its agency's FY 2017 financial statements and the attestation of its agency's compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act). The three audit reports prepared by an IPA and the attestation report prepared by an IPA are listed in Table 2. SBA/OIG did not contract other engagements during the period review that were performed in accordance with GAS.

**Table 2: Independent Public Accountants Report Monitored by SBA/OIG**

Report Number	Report Date	Report Title
18-02	November 8, 2017	Independent Accountants' Report on SBA's Compliance with the DATA Act
18-03	November 14, 2017	Independent Auditor's Report on SBA's FY 2017 Financial Statements
18-04	November 15, 2017	Independent Auditor's Report on SBA's FY 2017 Special-Purpose Financial Statements
18-08	December 18, 2017	KPMG Management Letters Communicating Matters Relative to SBA's FY 2017 Financial Statements and DATA Act Attestation Engagement

**Source:** Generated by the Department of State OIG on the basis of information provided by SBA/OIG.

We conducted our review at SBA/OIG headquarters in Washington, DC. We also interviewed SBA/OIG personnel located in Washington, DC, and Dallas, TX.