



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

---

**TRANSMITTAL MEMORANDUM  
Report No. 14-07**

**DATE:** January 15, 2014

**To:** Jonathan I. Carver  
Chief Financial Officer

**FROM:** Robert A. Westbrook /S/  
Deputy Inspector General

**SUBJECT:** KPMG Management Letter Communicating Matters Relative to SBA's FY 2013  
Financial Statement Audit

The attached Management Letter identifies matters that were identified during the audit of the SBA's FY 2013 financial statements. The audit was performed by an independent public accountant, KMPG LLP, under a contract with the Office of Inspector General and in accordance with *Generally Accepted Government Auditing Standards*; Office of Management and Budget's (OMB) Bulletin 14-02, *Audit Requirements for Federal Financial Statements*; the Government Accountability Office (GAO)/President's Council on Integrity and Efficiency (PCIE) *Financial Audit Manual*; and GAO's *Federal Information System Controls Audit Manual*.

The Management Letter addressed recommendations to the Chief Financial Officer; Chief Human Capital Officer; and Director for the Office of Financial Program Operations. We provided a draft of KPMG LLP's report to each of these officials or their designees, who fully or substantially concurred with the findings relative to their respective areas. The officials or designees agreed to implement the recommendations or have already taken action to address the underlying conditions.

Should you have any questions, please contact Jeffrey Brindle, Director, Information Technology and Financial Management at (202) 205-7490.

Attachment



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## MANAGEMENT LETTER

December 16, 2013

CONFIDENTIAL

The Inspector General  
U.S. Small Business Administration  
Washington, DC

Ladies and Gentlemen:

In planning and performing our audit of the consolidated financial statements of the U.S. Small Business Administration (the SBA), as of and for the year ended September 30, 2013 and 2012, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statement*, we considered the SBA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SBA's internal control. Accordingly, we do not express an opinion on the effectiveness of the SBA's internal control.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in Exhibit I.

In addition, we identified certain deficiencies in internal control that we consider to be a significant deficiency, and communicated them in writing to management and those charged with governance on December 16, 2013.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the SBA's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.



Office of the Inspector General  
U.S. Small Business Administration  
December 16, 2013  
Page 2 of 9

This communication is intended solely for the information and use of management, the Office of Inspector General, others within the organization, the Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

**U.S. SMALL BUSINESS ADMINISTRATION  
Management Letter Comments  
FY 2013**

***IMPROVEMENT IS NEEDED IN THE DOCUMENTATION OF THE OBLIGATIONS REVIEW PROCESS***

The Chief Financial Officer (CFO) does not have a current Standard Operating Procedure (SOP) that delegates specific responsibilities for creating an obligation, monitoring Undelivered Orders, (UDO) and de-obligating funds in its accounting system (Joint Administrative Accounting Management System).

During our walkthrough of SBA's processes for reviewing its obligations, we noted that the CFO had issued a procedural notice as of February 6, 2013 that outlined the UDO review and close-out responsibilities of the Office of Planning and Budget and the Denver Finance Center staff. However, the notice is temporary and does not adequately address the responsibilities of the Denver Finance Center staff, which has been delegated the responsibility of initiating obligations and ensuring the timely de-obligation of UDOs in the accounting system.

We recommend the Chief Financial Officer:

1. Continues to develop, formalize, and implement a current SOP to include staff roles and responsibilities, specific criteria, and timeframes for monitoring and closing obligations. This SOP should include the specific titles of the personnel who are delegated these responsibilities.

**Management's Response:**

The SBA's management concurred with the finding and recommendation.

***MISSING LOAN FILE DOCUMENTATION***

During our testwork performed over the guaranty loan charge-offs at the Little Rock Commercial Loan Servicing Center, we noted that the following documentation, required for the loans listed below, was not retained in the loan files:

<b>Missing Documentation</b>	<b>Loan Numbers</b>
Wrap-up Report	FOIA Ex. 4
Site visit documentation	FOIA Ex. 4

We recommend the Office of Financial Program Operations Director (OFPO):

**U.S. SMALL BUSINESS ADMINISTRATION**  
 Management Letter Comments  
 FY 2013

2. Implement quarterly quality control reviews over the loan files to ensure that all relevant documentation is retained prior to charge-off or disbursement.
3. Reinforce, through the issuance of a memorandum or training, the importance of retaining all substantive loan documents such as the site visit and wrap-up reports for all applicable loan files.

**Management's Response:**

The SBA's management concurred with the finding and recommendation.

***UNTIMELY POST PURCHASE AND CHARGE-OFF REVIEWS AND UNTIMELY PROCESSING OF CHARGE-OFF TRANSACTIONS***

During our testwork over guaranty loan purchases and charge-offs, we noted the following deficiencies at the loan centers:

National Guaranty Purchase Center, Herndon, VA:

<b>Loan Type</b>	<b>Loan Number</b>	<b>Deficiency</b>
7(a)	FOIA Ex. 4	The Post Purchase review was not timely completed (three to ten month delays).

Commercial Loan Service Center, Fresno, CA:

<b>Loan Type</b>	<b>Loan Number</b>	<b>Deficiency</b>
504	FOIA Ex. 4	There was a seven month to two year delay between the loan purchase and charge-off.

Commercial Loan Servicing Center, Little Rock, AR:

<b>Loan Type</b>	<b>Loan Number</b>	<b>Deficiency</b>
504	FOIA Ex. 4	There was a nine month to two year delay between the loan purchase and charge off.
504	FOIA Ex. 4	There was a one month delay between the date of charge-off approval and the date of charge-off processing.

U.S. SMALL BUSINESS ADMINISTRATION  
Management Letter Comments  
FY 2013

We recommend the OFPO Director:

4. Develops FY 2014 goals to address the inventory of Post Purchase Reviews and reassess necessary resources to improve processing time.
5. Leverages the existing quarterly reviews of the inventory of purchased loans to ensure that loan charge-offs occur timely. In addition, perform an additional review at year-end to ensure that all loans ready to be charged off are processed in the appropriate fiscal year.
6. Reinforces the importance of immediate processing of approved charge-offs at the Little Rock Commercial Loan Servicing Center to ensure loan charge-offs occur timely and in the appropriate fiscal year.

**Management's Response:**

The SBA's management concurred with the finding and recommendation.

***LACK OF REQUIRED SIGN-OFFS ON GUARANTY PURCHASES AND CHARGE-OFFS***

During our testwork over guaranty loan purchases at the Commercial Loan Service Center in Fresno, CA, we noted the following:

- An approving official did not review and approve the purchase transaction for 504 loan #FOIA Ex. 4
- The legal official recommended postponing the charge-off transaction. There was no documentation that indicated the approving official took this recommendation into consideration during the final review, and proceeded with charging off the loan balance on 504 loans #FOIA Ex. 4 and FOIA Ex. 4

We recommend the OFPO Director:

7. Reinforces the importance of a thorough review of all Form 327 actions by SBA personnel through the issuance of a memorandum or training.
8. Reinforces the need for appropriate documentation of the approving officials' consideration of the legal counsel's review and recommendation for charge-offs through the issuance of a memo or training.

**U.S. SMALL BUSINESS ADMINISTRATION  
Management Letter Comments  
FY 2013**

9. Performs periodic (quarterly) quality assurance reviews of Form 327 Charge-off actions to ensure all appropriate personnel have signed the form.

**Management's Response:**

The SBA's management concurred with the finding and recommendation.

***INCORRECT AMOUNT PAID AT TIME OF GUARANTY PURCHASE***

During our testwork over 7(a) guaranty loan purchases processed at the National Guaranty Purchase Center in Herndon, VA, we identified the following:

The SBA used an incorrect interest rate to calculate the interest owed to the lender, resulting in an overpayment of interest for the following loan:

<b>Loan Number</b>	<b>Incorrect Interest Rate Used</b>	<b>Correct Interest Rate</b>	<b>Overpayment Amount</b>
FOIA Ex. 4	7.00%	6.00%	\$2,096.00

When calculating the purchase price of the loan guaranty, the SBA erroneously included expenses of \$230.90, which should have been disallowed due to missing invoices. Additionally, SBA personnel erroneously entered the principal balance into the Guaranty Purchase Tracking System (GPTS), resulting in a difference of \$11. Using a guaranty rate of 75%, the resulting overpayment to the lender is:

<b>Loan Number</b>	<b>Net Overpayment Amount</b>
FOIA Ex. 4	\$164.93

The SBA used an incorrect principal balance to calculate interest to be paid, resulting in an underpayment to the lender for the following loans:

<b>Loan Number</b>	<b>Underpayment Amount</b>
FOIA Ex. 4	\$ (2,388.00)
FOIA Ex. 4	\$(18,601.00)
<b>Total</b>	<b>\$(20,989.00)</b>

**U.S. SMALL BUSINESS ADMINISTRATION  
Management Letter Comments  
FY 2013**

The SBA paid accrued interest on an incorrect number of accrued interest days, resulting in an underpayment to the lender for the following loan:

<b>Loan Number</b>	<b>Incorrect Number of Days</b>	<b>Correct Number of Days</b>	<b>Underpayment Amount</b>
FOIA Ex. 4	211	242	\$(751.00)

The SBA did not retain invoices for allowable Care and Preservation of Collateral (CPC) expenses in the amount of \$4,039.20, which were included in the principal balance at time of purchase for the following loan:

<b>Loan Number</b>	<b>Overpayment Amount</b>
FOIA Ex. 4	\$4,039.20

We recommend the OFPO Director:

10. Reinforces to approving officials, through the issuance of a memorandum or training, the importance of a thorough review and reconciliation of the interest rate, the amount of interest to be paid, and the outstanding principal balance prior to the guaranty loan purchase. This should include a detailed review of GPTS and the supporting loan documentation at time of purchase.
11. Reinforces, through the issuance of a memorandum or training to SBA's data entry personnel, the importance of performing thorough self-reviews of loan information manually entered into GPTS or any other SBA system.
12. Reinforces to approving officials, through the issuance of a memorandum or training, the importance of retaining the supporting loan documentation.
13. Notifies the lenders of the over/under payments, and corrects the outstanding receivables or payables for each respective loan.

**Management's Response:**

The SBA's management concurred with the finding and recommendation.

U.S. SMALL BUSINESS ADMINISTRATION  
Management Letter Comments  
FY 2013

***INADEQUATE REVIEW OF STAR TIME AND ATTENDANCE REPORTS***

During our testwork over a sample of 45 System for Time and Attendance Reporting (STAR) Time and Attendance (T&A) Reports and related supporting documentation for the amount certified, we noted the following deficiencies:

- Two STAR T&A Reports were not signed by the supervisor evidencing proper review and approval (Offices of the Chief Information Officer and Capital Access).
- One STAR T&A Report was signed and dated after the payroll disbursement occurred (Office of the Inspector General).
- Five STAR T&A Reports were not dated by the employee's timekeeper and/or supervisor evidencing timely review and certification (Offices of General Counsel, Field Operations, and Financial Assistance).
- Two Office of Personnel Management (OPM) Form 71, *Request for Leave or Approved Absence*, were not obtained and maintained to support leave taken during the selected pay period (Offices of International Trade and Investments).

We recommend the Chief Human Capital Officer:

14. Continues to reinforce policies and procedures regarding the certification of STAR T&A Reports with supervisors and timekeepers (i.e., issuance of a memorandum, training).
15. Develops and implements appropriate enforcement actions against individuals and offices with multiple instances of non-compliance.
16. Continues to perform periodic quality assurance reviews to ensure supervisors and timekeepers are properly certifying and dating all STAR T&A Reports.

**Management's Response:**

The SBA's management concurred with the finding and recommendation.

**U.S. SMALL BUSINESS ADMINISTRATION  
Management Letter Comments  
FY 2013**

***IMPROVEMENT NEEDED IN THE EMPLOYEE SEPARATION PROCESS***

During our review of internal controls over SBA's employee separation process, we found that 29 of the 30 SBA Form 78, *Separation Checklist Form* (Checklists) were not properly or completed or signed in accordance with the instructions provided on the Form 78 or in the governing SOP. More specifically, employees did not obtain clearances from SBA administrative offices where their supervisor had indicated a clearance was required. The Office of Human Resource Solutions (OHRS) was unable to provide the remaining Checklist.

We recommend the Chief Human Capital Officer:

17. Provides training to all SBA managers and supervisors regarding the completion and acceptance of an employee's Checklist. The training should emphasize that managers and supervisors are responsible for returning the completed Checklist to the Servicing Human Resources Office.
18. Encourages SBA managers and supervisors to start an employee's separation process at least two weeks prior to their departure date. This will allow the employee adequate time to obtain all required signatures on the Checklist.
19. Reinforces the policies and procedures that require staff in the OHRS to fully review employees' Checklists, ensuring that all required fields are completed prior to their acceptance and sign-off.
20. Develops and implements administrative actions for SBA officials who do not consistently adhere to the separation policy outlined in the SOP.
21. Establishes procedures to ensure the Servicing Human Resources Office timely receives all employee Checklists and submits them to the Payroll Processing Branch for filing in accordance with the SBA's records retention schedule.

**Management's Response:**

The SBA's management concurred with the finding and recommendation.