



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

Final Report Transmittal
Report Number: 17-06

DATE: December 8, 2016

TO: Maria Contreras-Sweet
Administrator

Tim Gribben
Chief Financial Officer and Associate Administrator for
Performance Management

FROM: Hannibal M. Ware /s/
Deputy Inspector General

SUBJECT: KPMG Management Letter Communicating Matters Relative to SBA's FY 2016
Financial Statement Audit

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to audit the U.S. Small Business Administration's (SBA) consolidated financial statements for fiscal year (FY) 2016, ending September 30, 2016. The audit was performed in accordance with *Generally Accepted Government Auditing Standards*; the Office of Management and Budget's (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*; the U.S. Government Accountability Office (GAO)/President's Council on Integrity and Efficiency *Financial Audit Manual*; and GAO's *Federal Information System Controls Audit Manual*.

The attached management letter represents matters that were identified during the audit. KPMG addressed recommendations to the Chief Human Capital Officer, and the Chief Financial Officer, in coordination with the directors of the Programmatic Accounting Division and Office of Financial Systems. We provided a draft of KPMG's findings 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.

cc: Nick Maduros, Chief of Staff
Melvin F. Williams, Jr., General Counsel
Martin Conrey, Attorney Advisor, Legislation and Appropriations
LaNae Twite, Director, Office of Internal Controls

Attachment



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

November 14, 2016

CONFIDENTIAL
Inspector General
U. S. Small Business Administration
Washington, D.C.

Ladies and Gentlemen:

In planning and performing our audit of the consolidated financial statements of the U.S. Small Business Administration (SBA), as of and for the year ended September 30, 2016 and 2015, 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 Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, we considered SBA's internal control over financial reporting (internal control) as a basis for designing auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SBA's internal control. Accordingly, we do not express an opinion on the effectiveness of 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. We would be pleased to discuss these comments and recommendations with you at any time.

In addition, we identified a combination of 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 November 14, 2016.

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.

This communication is intended solely for the information and use of management, the Office of the 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 2016

Inadequate Review of STAR Time and Attendance Reports

SBA has controls in place to ensure timely review and approval of System for Time and Attendance Reporting (STAR) Time and Attendance (T&A) Reports as well as requests for leave or approved absence.

During our control test work over approvals of STAR T&A Reports and related supporting documentation for amounts certified, we noted the following 11 control deficiencies in a sample of 40 reports:

- Two STAR T&A Reports could not be provided for audit review.
- Four STAR T&A Report were not signed by the timekeeper (certifier) and supervisor (approver) until after the payroll disbursement.
- Three other STAR T&A Reports were not signed by the supervisor (approver) until after the payroll disbursement occurred.
- One STAR T&A Report was not dated by the employee's supervisor.
- One instance where leave taken was not supported by an approved OPM 71 Form, Request of Leave or Approved Absence Form.

When an employee's timekeeper and/or supervisor does not properly approve the STAR T&A Report, there is no evidence that the employee's hours worked are accurate. This could result in a misstatement in the payroll expense reported in the SBA's financial statements. Additionally, when an authorized and approved OPM Form 71 is not obtained and/or maintained, the Agency has inadequate evidence to support reported accrued unfunded leave balances.

We recommend the Chief Human Capital Officer:

1. Continue to reinforce policies and procedures regarding the certification of STAR T&A Reports with supervisors and timekeepers (i.e., issuance of a memorandum, training).
2. Continue to perform periodic quality assurance reviews to ensure supervisors and timekeepers are properly certifying and dating all STAR T&A Reports.
3. Develop and implement appropriate enforcement actions against individuals and offices with multiple instances of noncompliance.

Management's Response:

SBA management concurred with the findings and recommendations.

U.S. SMALL BUSINESS ADMINISTRATION
 Management Letter Comments
 FY 2016

Untimely Processing of 504 Guaranteed Loan Purchases

SBA encourages its lenders to issue loans to U.S. small businesses by allowing lenders (preferred/preapproval basis) to attach its guaranty to certain loans on a delegated authority and/or preapproval basis depending on loan type, size etc. When the approved borrower with an SBA guaranteed loan defaults, the lender may send SBA a demand to purchase the loan. SBA is responsible for timely honoring its guaranty by purchasing the loan and promptly recording the purchase transaction into its loan accounting system to ensure accurate and timely measurement of loan liability, receivable, and related subsidy costs.

During our interim test work over guaranty loan purchases, we identified one instance in which SBA did not timely process the 504 guaranty loan purchase:

| Loan Number | Purchase Approval Date | Purchase Process Date |
|-------------|------------------------|-----------------------|
| 1 | 7/10/2015 (FY 2015) | 2/17/2016 (FY 2016) |

For this loan, there was a manual data entry error by Denver Finance Center (DFC) personnel, which was not corrected for seven months. The delay crossed over fiscal years.

Lack of adequate remediation of processing errors resulted in a loan purchased in FY 2016 that should have been purchased in FY 2015. Purchases that are processed in the subsequent fiscal year may result in an understatement of the prior year defaulted guaranty loan receivable balance and overstatement of Liability for Loan Guaranty for the related subsidy cost.

We recommend that the Chief Financial Officer, in coordination with the Programmatic Accounting Division director and Office of Financial Systems director:

4. Develop a control to timely review and remediate all processing errors reported that may result in untimely purchase of loans.

Management’s Response:

SBA management concurred with the finding and recommendation.