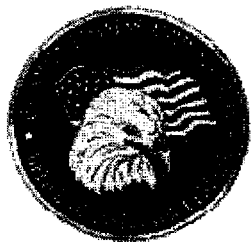


**IMPROPER ALLOTMENT OF RECOVERY ACT  
APPORTIONMENTS**

*Report Number: ROM 11-01*  
*Date Issued: December 15, 2010*

**Prepared by the  
Office of Inspector General  
U.S. Small Business Administration**



**U.S. Small Business Administration  
Office Inspector General**

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# Memorandum

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

Date: **December 15, 2010**

From: **Peter McClintock**  
**Deputy Inspector General**

Subject: **Improper Allotment of Recovery Act Apportionments**  
**Report No. ROM 11-01**

Attached is the Management Letter issued by KPMG LLP which identifies a matter that came to their attention during the audit of SBA's FY 2010 financial statements. The objective was to assess the adequacy of oversight and monitoring over the Agency's Recovery Act budgetary resources.

KPMG addressed one recommendation to you. We provided a draft of KPMG's report to you and you concurred with the finding. You also agreed to implement the recommendations or have already taken action to address the underlying conditions.

Should you or your staff have any questions, please contact Jeffrey R. Brindle, Director, Information Technology and Financial Management Group at (202) 205- [FOIA ex. 2]



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036-3389

## AMERICAN RECOVERY AND REINVESTMENT ACT MANAGEMENT LETTER

December 15, 2010

CONFIDENTIAL

Office of the Inspector General,  
U.S. Small Business Administration, and  
Administrator of the SBA:

We were engaged by the Office of Inspector General (OIG) to perform supplemental audit services for the purpose of testing certain transactions and system enhancements related to the U.S. Small Business Administration's (SBA) implementation of the American Recovery and Reinvestment Act of 2009 (ARRA). The procedures were performed as part of an expanded scope of our fiscal year 2010 audit of SBA's consolidated financial statements. In planning and performing our audit procedures related to SBA's implementation of ARRA, we considered internal control related to the implementation and operation of the ARRA programs that were in place as of September 30, 2010.

During our audit, we noted a matter involving internal control concerning improper allotment of ARRA apportionments. The comments and resulting recommendations, presented in the Exhibit, have been discussed with the appropriate members of management and are intended to improve internal control or result in other operating efficiencies.

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

This report is intended solely for the information and use of the OIG, SBA management, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

**KPMG LLP**

**U.S. SMALL BUSINESS ADMINISTRATION**  
 American Recovery and Reinvestment Act  
 Management Letter Comments  
 FY 2010

***IMPROPER ALLOTMENT OF AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 APPORTIONMENTS***

**Condition:**

During our testwork over American Recovery and Reinvestment Act of 2009 (ARRA) allotments made between October 1, 2009 and May 31, 2010, we noted nine instances where allotment adjustments resulted in the unobligated funds available balance exceeding the available apportionment. At the time these entries were made, SBA utilized two separate systems to allot funds: the Funds Control Management System (FCMS) used by staff in the Office of Capital Access (OCA) and the Loan Accounting Allotment System (LAA) used by staff in the Office of the Chief Financial Officer (OCFO). We also noted that although the unobligated funds available balance exceeded the apportionment, SBA did not obligate more than that which was apportioned.

After we identified this issue, we selected all remaining items in the population and found no additional exceptions in allotment entries made between October 1, 2009 and May 31, 2010.

**Criteria:**

*Anti-Deficiency Act:* 31 USC Sec. 1517. Prohibited obligations and expenditures:

- (a) An officer or employee of the United States Government or of the District of Columbia government may not make or authorize an expenditure or obligation exceeding –
  - (1) an apportionment

*Federal Managers' Financial Integrity Act of 1982 (FMFIA)*

- (d)(1)(A) To ensure compliance with the requirements of subsection (a)(3) of this section, internal accounting and administrative controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General, and shall provide reasonable assurances that –
  - (i) obligations and costs are in compliance with applicable law

Office of Management and Budget (OMB) Circular A-11, *Preparation, Submission and Execution of the Budget*

150.2 What is the purpose of my agency's fund control system?

The purpose of your agency's fund control system is to:

Restrict *both* obligations and expenditures (also known as outlays or disbursements) from each appropriation or fund account to *the lower of* the amount apportioned by OMB or the amount available for obligation or expenditure in the appropriation or fund account.

**U.S. SMALL BUSINESS ADMINISTRATION**  
American Recovery and Reinvestment Act  
Management Letter Comments  
FY 2010

150.4 What is the relationship between my agency's financial management system and its fund control system?

Your agency's *financial management system* must support the preparation and execution of your agency's budget, among other things. Your agency's fund control system is part of your agency's budget execution process. Therefore, your agency's financial management system must support your agency's fund control system.

**Cause:**

There is a lack of internal control and delegated authority over fiscal responsibility, inadequate access controls for FCMS and LAA, a lack of communication between the OCFO and OCA, and insufficient oversight and monitoring over the agency's ARRA budgetary process to ensure unobligated funds available do not exceed apportionments.

SBA implemented a new Funds Control System on June 26, 2010, which now serves as the sole system used to fund SBA programs and activities. This system replaces FCMS and LAA as the allotment entry vehicle, and access rights are limited to the OCFO office only.

**Effect:**

Between February 19, 2010 and April 29, 2010, SBA encountered periods where its unobligated funds available for ARRA loan programs exceeded the authorized apportionment by an aggregate \$2.7 billion, which could have resulted in and increased the risk of an Anti-Deficiency Act violation. Although SBA management represented to us that they electronically "turned off" the apportionments in question in the FCMS (thus preventing obligations from occurring and mitigating this risk), we were unable to obtain evidence to support this representation.

**Recommendation:**

We recommend the Chief Financial Officer:

1. Ensure the newly implemented FCMS has adequate system controls in place to prevent allotments from exceeding apportioned amounts.

**Management's Response:**

SBA management concurs with the findings and recommendation.