



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

Final Report Transmittal
Report Number: 18-02

DATE: November 8, 2017

TO: Linda E. McMahon
Administrator

FROM: Hannibal "Mike" Ware
Acting Inspector General

A handwritten signature in black ink, appearing to read "H. Ware", written over the printed name of the Acting Inspector General.

SUBJECT: Independent Accountants' Report on SBA's Compliance with DATA Act Reporting

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to perform an attestation engagement as required by the Digital Accountability and Transparency Act of 2014 (DATA Act). The objectives of this engagement were to assess (1) the completeness, timeliness, and accuracy of the U.S. Small Business Administration's (SBA's) fiscal year (FY) 2017, second quarter financial and award data submitted for publication on USASpending.gov, and (2) SBA's implementation and use of the Government-wide financial data standards established by the Office of Management and Budget and the U.S. Department of the Treasury. KPMG conducted the engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants, the standards applicable to attestation engagements contained in the U.S. Government Accountability Office's (GAO's) *Government Auditing Standards*, and guidance issued in the U.S. Department of the Treasury Office of Inspector General's publication, *Inspectors General Guide to Compliance Under the DATA Act* (the Guide).

The attached independent accountants' report presents a modified opinion on SBA's FY 2017, second quarter data submission required under the DATA Act. Specifically, KPMG reported that

- the data submission was presented in accordance with the characteristics defined in the Guide, in all material respects, except for accuracy, and
- there is a material weakness related to SBA's controls over the accuracy of data reported on USASpending.gov.

Details regarding KPMG's conclusions are included in Exhibit II of this report. Within 30 days of this report, KPMG expects to issue a separate letter to SBA management regarding other, less significant matters that came to its attention during this engagement.

We reviewed a copy of KPMG's report and related documentation and made necessary inquiries of their respective representatives. Our review was not intended to enable us to express—and we do not express—an opinion on SBA's FY 2017, second quarter data submission, KPMG's conclusions about the effectiveness of internal controls, or its conclusions about SBA's compliance with laws and regulations. However, our review disclosed no instances where KPMG did not comply, in all material respects, with GAO's *Government Auditing Standards*.

We provided a draft of KPMG's report to SBA's Chief Financial Officer, who concurred with its findings and recommendations and agreed to implement the recommendations. The Chief Financial Officer's comments are attached as Exhibit III to this report.

We appreciate the cooperation and assistance of SBA and KPMG. Should you or your staff have any questions, please contact me at (202) 205-6586 or Jeffrey R. Brindle, Director of the Information Technology and Financial Management Group, at (202) 205-7490.

cc: Althea "Allie" Coetzee Leslie, Deputy Administrator
Timothy E. Gribben, Chief Financial Officer and Senior Accountable Official
Mary Anne Bradfield, Chief of Staff
Pradeep Belur, Senior Advisor to the Administrator
Christopher Pilkerton, General Counsel
Martin Conrey, Attorney Advisor
LaNae Twite, Director, Office of Internal Controls

Attachments



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Independent Accountants' Report

Acting Inspector General, U.S. Small Business Administration and
Chief Financial Officer and Senior Accountable Official, U.S. Small Business Administration:

We have examined the U.S. Small Business Administration's (SBA) fiscal year 2017, second quarter financial and award spending data presented in Files A, B, C, D1, and D2 (the selected files) prepared for publication on Beta.USASpending.gov, in accordance with the *Digital Accountability and Transparency Act of 2014* (DATA Act) (hereinafter referred to as the submission), to determine whether they are presented in accordance with the characteristics defined in the *U.S. Department of Treasury's Inspectors General Guide to Compliance Under the DATA Act* (the Guide). The selected files were submitted by SBA with other information on April 28, 2017 to Beta.USASpending.gov. SBA's management is responsible for the submission and the presentation of the selected files in accordance with government-wide financial data standards developed by the Office of Management and Budget (OMB) and the U.S. Department of Treasury, which include the following characteristics, consistent with the Guide:

- The transactions reported in the selected files included all applicable data elements required by the data standards established in accordance with the DATA Act by the Secretary of the Treasury and the Director of the OMB (the data standards) (Completeness of data elements).
- All transactions that should have been recorded in the selected files were recorded in the proper reporting period (Completeness of transactions).
- The transactions reported in the selected files were reported within 30 days of quarter end (Timeliness).
- The percentage of transactions reported in the selected files that were complete and agree with the authoritative source or underlying support (Accuracy).
- For transactions reported in the selected files, all data elements were presented in conformance with the established data standard for that data element (Completeness of data standards).

Our responsibility is to express an opinion on the selected files based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards for attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the selected files are presented in accordance with the characteristics, as defined in the Guide, in all material respects. An examination involves performing procedures to obtain evidence about the selected files. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the selected files, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our modified opinion.

Our examination was not conducted for the purpose of evaluating the matters listed below and accordingly, we do not express an opinion or any other form of assurance on these matters:

- The data in the selected files other than the data elements required by the data standards established in the DATA Act.
- The data in File E and File F of the submission.



- The following data elements in File D1: Business Types, Awardee/Recipient Legal Entity Name, Legal Entity Address, Legal Entity Congressional District, Legal Entity Country Code, and Legal Entity Country Name.
- The quality of the data in the selected files, as defined in the Guide.
- Whether the transactions in the selected files agree to data in the System for Award Management, the Federal Funding Accountability and Transparency Act Subaward Reporting System, or the Federal Procurement Data System–Next Generation (FPDS-NG).

Our examination disclosed an overall error rate of approximately 32 percent with the Accuracy characteristic. In a sample of 375 transactions, 121 had an error where at least 1 reported data element did not agree to supporting documentation. Exhibit I presents additional details on the results of our test work.

In our opinion, except for the errors with the Accuracy characteristic described in the preceding paragraph, SBA's fiscal year 2017 selected files were presented in accordance with the characteristics defined in the Guide, in all material respects.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Reporting of the Transactions in the Selected Files

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the selected files; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the subject matter. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether the selected files are presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over reporting of the selected files or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed one internal control finding that is required to be reported under *Government Auditing Standards*, and is described in Exhibit II. We consider the finding in Exhibit II to be a material weakness.

SBA's Response to the Examination Results

SBA's response to the examination results is presented in Exhibit III. SBA's response was not subjected to the procedures applied in the examination of the selected files and, accordingly, we do not express an opinion on the response.

Purpose of this Report

The purpose of this report is to communicate the results of our examination of the selected files. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 8, 2017

Exhibit I
Additional Error Rate Information

Characteristic Error Rates at the Transaction Level

During our examination of the U.S. Small Business Administration's (SBA) fiscal year 2017, second quarter financial and award spending data, presented in Files A, B, C, D1, and D2 (the selected files), we performed specific procedures, where applicable, to determine if the selected files were presented in accordance with the following characteristics as defined in the U.S. Department of Treasury's *Inspectors General Guide to Compliance under the DATA Act* (the Guide): Timeliness, Completeness of data elements and transactions, Completeness of data standards, and Accuracy.

Based on our sample testing, we identified an error in at least one data element in certain sample transactions. For instance, our examination disclosed 121 transactions in a sample of 375 transactions for which we were able to complete test work where at least 1 of the reported data elements, did not agree to the supporting documents. As a result, we noted an overall error rate of approximately 32 percent with the Accuracy characteristic.

As requested in Section 500.01 of the Guide, we report the following error rates and sampling errors on a transaction level based on the sample testing for each characteristic. Also, for purposes of the table below, Results of Error Rate by Characteristic, an error is defined as an instance where at least one data element of a sampled transaction was not presented in accordance with the characteristic as defined in the Guide.

Table 1 – Results of Error Rate by Characteristic

Characteristic	Transactions with Errors / Total Transactions Tested ¹	Actual Error Rate ²	Maximum Acceptable Error Rate ³	Sampling Error		Confidence Level
				Lower Limit	Upper Limit	
Timeliness	2/385	.52%	2.60%	1.27%	4.68%	95%
Completeness of Data Elements and Transactions	8/383	2.09%	2.61%	1.28%	4.71%	95%
Completeness of Data Standards	0/375	0.00%	2.67%	1.30%	4.81%	95%
Accuracy ⁴	121/375	32.27%	2.67%	1.30%	4.81%	95%

Notes	
1	The number of transactions tested for Completeness of Data Elements and Transactions is the total number of sample items less the transactions tested with Timeliness errors. The number of transactions tested for Accuracy and Completeness of Data Standards is the total number of sample items less the transactions tested with Timeliness and Completeness of Data Elements and Transactions errors.
2	These error rates do not reflect any potential errors in File E, File F, and the following data elements in File D1: Business Types, and the following data elements for procurement and grant samples: Awardee/Recipient Legal Entity Name, Legal Entity Address, Legal Entity Congressional District, Legal Entity Country Code, and Legal Entity Country Name. These files and data elements were not evaluated as part of our examination. Additionally, the error rates do not reflect discrepancies with external websites.
3	We have shown the maximum acceptable error rate (MAER) to provide context to these figures. The MAER varies depending on the number of times a characteristic was tested in the sample and the relative size of the population associated with that characteristic.
4	The Accuracy error rate does not include completeness errors, which may be combined, based on the definition of Accuracy in the Guide.

Improvement Needed in Controls over the Accuracy of DATA Act Submissions

Our test work over the selected files disclosed an overall error rate of approximately 32 percent with the Accuracy characteristic. In a sample of 375 transactions, 121 transactions had an error where at least 1 reported data element did not agree to supporting documentation.

We determined that SBA did not have adequately designed and implemented controls over the Accuracy characteristic of transactions in the selected files. Specifically, SBA did not design and implement control activities over the input of data into relevant source systems and adequately train personnel on this process.

The following criteria were considered with respect to the matter described in the preceding paragraph:

- Public Law 113-101, *Digital Accountability and Transparency Act of 2014*, SEC. 2. Purposes: “The purposes of this Act are to— (1) expand the Federal Funding Accountability and Transparency Act of 2006 (31 U.S.C. 6101 note) by disclosing direct Federal agency expenditures and linking Federal contract, loan, and grant spending information to programs of Federal agencies to enable taxpayers and policy makers to track Federal spending more effectively; (2) establish Government-wide data standards for financial data and provide consistent, reliable, and searchable Government-wide spending data that is displayed accurately for taxpayers and policy makers on USASpending.gov (or a successor system that displays the data); (3) simplify reporting for entities receiving Federal funds by streamlining reporting requirements and reducing compliance costs while improving transparency; (4) improve the quality of data submitted to USASpending.gov by holding Federal agencies accountable for the completeness and accuracy of the data submitted; and (5) apply approaches developed by the Recovery Accountability and Transparency Board to spending across the Federal Government.”
- Government Accountability Office (GAO) -14-704G, *Standards for Internal Control in the Federal Government* (Green Book): “Management is responsible for an effective internal control system. A part of this responsibility, management sets the entity’s objectives, implements controls, and evaluation the internal control system.”
- Office of Management and Budget (OMB) M-15-12, *Increase Transparency of Federal Spending by Making Federal Spending Data Accessible, Searchable, and Reliable*: “The DATA Act requires all agencies to use these data definition standards for the collection and reporting of agency-level and award-level data by two years after their issuance. Implementation efforts shall include agency efforts to modify existing agency regulatory and non-regulatory policies (if required), business processes, and as needed, systems to support agency-level financial reporting and new data quality requirement under this Memorandum. Agencies shall modify policies, internal business processes, and/or information technology, as needed, to ensure consistent publication of agency-level and award level reporting under the DATA Act and FFATA on USASpending.gov (or its successor site).”

Recommendations:

We recommend that the Senior Accountable Official, in coordination with the respective SBA grant and loan officials:


1. Design and implement control activities over the input of financial and award spending data into relevant source systems.
2. Provide training and detailed guidance to responsible individuals who enter information into source systems that feed the submission. This guidance should include the definition of the standardized data elements and underlying categories, to ensure the correct type of data value is selected when award information is input into the systems.



CFO Response to Draft Audit Report on FY 2017 DATA Act Attestation

DATE: November 7, 2017

TO: Hannibal M. Ware, (Acting) Inspector General

FROM: Timothy Gribben, Chief Financial Officer and 
Associate Administrator for Performance Management

SUBJECT: Draft Audit Report on FY 2017 DATA Act Attestation Audit

The Small Business Administration has received the draft Independent Auditors' Report from KPMG that includes the auditors' opinion on the Agency's FY 2017 Quarter 2 DATA Act submission and its review of the Agency's internal control over reporting of the transactions in the DATA Act files and compliance with laws and regulations. Both the DATA Act submission and the independent audit of the Agency's first submission and related processes were new requirements for FY 2017. The auditors conducted an Attestation Audit of SBA, which was different from the DATA Act Performance Audits conducted at nearly every other CFO-Act agency. The auditor evaluated the Agency's submission with regard to: (1) Timeliness; (2) Completeness of Data Elements; (3) Completeness of Data Standards; and (4) Accuracy.

Exhibit II, Material Weakness

The auditor test work over the selected files disclosed an overall error rate of approximately 32 percent with the Accuracy characteristic. In a sample of 375 transactions, 121 transactions had an error where at least one reported data element did not agree to supporting documentation. The auditor found that SBA did not have adequately designed and implemented controls over the Accuracy characteristic of transactions in the selected files. Specifically, SBA did not design and implement control activities over the input of DATA Act data into relevant source systems and adequately train personnel on this process.

SBA Response

SBA had no errors related to Completeness of Data Standards, actual error rates for Timeliness and Completeness of Data Elements that were below the maximum acceptable error rates as calculated by the independent auditor, and no errors were related to federal funding amounts.

The Office of Inspector General's auditor based the error rate calculation on the methodology defined in the OMB April 6, 2010 memorandum, Open Government Directive – Federal Spending Transparency, Footnote 5 on page 8. The definition states that completeness and accuracy error rates are measured as the percentage of transactions containing all data elements that are complete and are consistent with source records or authoritative sources. Application of the April 2010 methodology results in treating all elements with equal weight, and if just one element is incorrect, the whole transaction is considered incorrect. OMB acknowledges that the April 2010 rule was implemented to

enhance the accuracy of the first generation of USASpending and may need to be updated so it is relevant to DATA Act files, and the error rate for accuracy, completeness, and timeliness is calculated on an element basis rather than transaction basis. On a per element basis, we would anticipate lower error rates.

Absent federal guidance on the acceptable error rate, the auditor calculated a Maximum Acceptable Error Rate using the sample selection criteria prescribed by the Inspector General Guide to Compliance Under the DATA Act and the prescribed sample size of 385 selected by the auditor. This resulted in a very low Maximum Acceptable Error Rate of 2.67%, which for the first transmission allowed for only 10 of the 375 transactions sampled to have even one inconsistency across all 57 elements. This rate is particularly low when compared to the Expected Error Rate of 50% prescribed by the same guidance for selecting a sample. While the error rate for Accuracy of approximately 32% was substantially below the 50% expected by CIGIE, it exceeded the auditor-calculated acceptable error rate which resulted in the material weakness.

To implement DATA Act requirements, the Department of Treasury (Treasury) developed a Broker to consolidate agency data and authoritative source data to display on USASpending.gov. Treasury acknowledges that five data elements/fields may not display the correct result because of issues in deriving, extracting, and displaying fields. Two of those fields, Current Total Value of Award and Potential Total Value of Award, were included in the examination. Treasury is working to resolve the issues with the display of these data elements. Therefore, these known data element issues are outside the control of SBA, and there are no actions that SBA could have taken to address these issues. While KPMG acknowledged that the exceptions were due to the Broker issue, if these two data elements were excluded from the Accuracy error rate calculation, SBA estimates that the error rate calculated by the auditor would have been approximately 1% lower.

Conclusion

We appreciate your efforts and those of your colleagues in the Office of the Inspector General, as well as those of KPMG. The independent audit process continues to provide us with new insights and valuable recommendations that will further enhance SBA's DATA Act submissions. We remain committed to excellence in reporting of the Agency's financial and award spending data and look forward to making more progress in the coming year.