



**U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
AUDITING DIVISION**

November 13, 2009

U.S. Department of the Treasury
Financial Management Services
Room 509B
3700 East-West Highway
Hyattsville, MD 20782
Attention: Karen Hunter

Subject: SBA OIG Audit Report No. 10-05, *GFRS for Fiscal Year 2009*

Pursuant to OMB Circular A-136, *Financial Reporting Requirements* (Circular A-136) and the *Treasury Financial Manual*, Part 2, Chapter 4700 (TFM 2-4700), attached is the *Independent Auditors' Report* on Special-Purpose Financial Statements, issued by KPMG LLP on the Small Business Administration's (SBA) reclassified balance sheet as of September 2009 and 2008, and the reclassified statements of net costs and changes in net position and Federal trading partner note for the year then ended (hereinafter referred to as the special-purpose financial statements).

The auditor found that the statements, including the Federal trading partner note, present fairly in all material respects, the financial position of SBA as of September 30, 2009 and 2008. Also, the results of operations and the changes in net position for the period then ended are in accordance with U.S. generally accepted accounting principles, and the presentation is in conformance with the requirements of TFM 2-4700. As requested, the following documents are attached:

- (1) reclassified financial statements;
- (2) GF004F Trading Partner Summary Note Report;
- (3) GF003G Closing Package Line Reclassification Summary Report;
- (4) GF006 FR Notes Report;
- (5) GF007 Other Data Report;
- (6) Management Representation Letter on the Closing Package, including the Summary of Unadjusted Misstatement; and
- (7) Closing Package *Independent Auditors' Report*.

We reviewed KPMG's report and related documentation and made necessary inquiries of their representatives. Our review was not intended to enable us to express, and we do not express, an opinion on the SBA's reclassified financial statements or on conclusions about internal control and the SBA's compliance with laws and regulations. However, our review disclosed no instances where KPMG did not comply, in all materials respects, with *Generally Accepted Government Auditing Standards*.

We appreciate the cooperation and assistance of SBA and KPMG representatives.
Should you or your staff have any questions, please contact me at (202) 205-^[FOIA ex. 2] or Jeffrey
R. Brindle, Director, Information Technology and Financial Management Group at
(202) 205-^[FOIA ex. 2]

Sincerely,

[FOIA ex. 6]

Debra S. Ritt
Assistant Inspector General for Auditing

Attachments

Cc: Department of Treasury, Financial Management Services: financial.reports@fms.treas.gov
Government Accountability Office: USCFS@gao.gov
OMB, Office of Federal Financial Management: Statements@omb.eop.gov



KPMG LLP
2001 M Street, NW
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Independent Auditors' Report

Office of Inspector General
U.S. Small Business Administration:

We have audited the accompanying Closing Package Financial Statement Report – Balance Sheet of the U.S. Small Business Administration (SBA) as of September 30, 2009 and 2008; the related Closing Package Financial Statement Report – Statement of Net Cost and Statement of Changes in Net Position, and the accompanying Financial Report (FR) Notes Report (except for the information contained in the FR Notes Report entitled “Threshold”) for the years then ended; the accompanying Additional Note No. 29; the accompanying Trading Partner Summary Note Report – Balance Sheet as of September 30, 2009 and 2008; and the related Trading Partner Summary Note Report – Statement of Net Cost and Statement of Changes in Net Position for the years then ended (hereinafter collectively referred to as the special-purpose financial statements). These special-purpose financial statements are the responsibility of SBA’s management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audits.

We conducted our audits 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SBA’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying special-purpose financial statements have been prepared for the purpose of complying with the requirements of Chapter 4700 of the U.S. Department of the Treasury’s *Treasury Financial Manual* (TFM), as described in Additional Note No. 29, solely for the purpose of providing financial information to the U.S. Department of the Treasury and the U.S. Government Accountability Office (GAO) to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of SBA’s consolidated financial statements.

In accordance with *TFM Chapter 4700*, SBA prepared FR Notes Report Nos. 1 through 28B, except for FR Notes Report Nos. 10A, 16, 21, 23, and 24, which were not applicable to SBA. SBA included Additional Note No. 29, to disclose other data not contained in the special-purpose financial statements, but which is necessary to make the special-purpose financial statements more informative.



In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the financial position of SBA as of September 30, 2009 and 2008, and its net costs and changes in net position for the years then ended in conformity with U.S. generally accepted accounting principles and the presentation pursuant to the requirements of *TFM Chapter 4700*, as described in Additional Note No. 29.

SBA also prepared Other Data Report Nos. 1 through 16, except for Other Data Report Nos. 3 through 8 and 11 through 14, which were not applicable to SBA. The information included in the Other Data Report Nos. 9 (except for the information in the section entitled "Threshold"), 10, 15, and 16 is presented for the purpose of additional analysis and is not a required part of the special-purpose financial statements, but is supplementary information required by U.S. generally accepted accounting principles and the *TFM Chapter 4700*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this supplementary information, and accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the special-purpose financial statements taken as a whole. The information included in the Other Data Report Nos. 1 and 2 is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements. This information has been subjected to the auditing procedures applied in the audits of the special-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the special-purpose financial statements taken as a whole.

The information entitled "Threshold" in Other Data Report No. 9 and the information in the sections entitled "Threshold" in FR Notes Report Nos. 2, 3, 4A, 4B, 6, 8, 9, 15, and 19; the information in the Closing Package Line Reclassification Summary Report – Balance Sheet; and the information in the Closing Package Line Reclassification Summary Reports – Statement of Net Cost and Changes in Net Position are presented for purposes of additional analysis and are not a required part of the special-purpose financial statements. This information has not been subjected to the auditing procedures applied in the audits of the special-purpose financial statements, and accordingly, we express no opinion on it.

The *TFM Chapter 4700* requires agencies to use the Governmentwide Financial Reporting System to input certain data as described in Additional Note No. 29. Except as discussed in this report, we express no opinion on information maintained in that system.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, we have also issued a combined auditors' report dated November 13, 2009 which presents our opinion on SBA's consolidated financial statements; our consideration of SBA's internal control over financial reporting; and the results of our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters that are required to be reported under *Government Auditing Standards*. Also, our report emphasized SBA's implementation of Statement of Federal Financial Accounting Standards No. 31, *Accounting for Fiduciary Activities*. That report is an integral part of the audits of the consolidated balance sheets of SBA as of September 30, 2009 and 2008, and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources (hereinafter collectively referred to as consolidated financial statements) for the years then ended, performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, and should be read in conjunction with this report in considering the results of our audits of the special-purpose financial statements. Our audit of the consolidated financial statements of SBA as of and for the year ended September 30, 2009 disclosed the following material weakness, significant deficiency, and compliance matter:

Material Weakness: SBA needs to improve their Internal Controls over Financial Reporting

Significant Deficiency: SBA needs to improve their Information Technology (IT) Security Controls



Compliance Matter: SBA management reported the agency was noncompliant with the Debt Collection Improvement Act in fiscal year 2009 due to instances where it did not refer a substantial number of charged off loans to Treasury for offset and cross-servicing.

Management is responsible for establishing and maintaining effective internal control. In planning and performing our audit of the fiscal year 2009 special-purpose financial statements, we also considered SBA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the special-purpose financial statements, but not for the purpose of expressing an opinion on the effectiveness of SBA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SBA's internal control over financial reporting.

Our consideration of internal control over financial reporting for special-purpose financial statements was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting for special-purpose financial statements that might be deficiencies, significant deficiencies, or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

In our fiscal year 2009 audit, we did not identify any deficiencies in internal control over financial reporting for the special-purpose financial statements that we consider to be material weaknesses as defined above.

Management is responsible for complying with laws, regulations (including *TFM Chapter 4700*), contracts, and grant agreements applicable to SBA. As part of obtaining reasonable assurance about whether SBA's fiscal year 2009 special-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions or on compliance with *TFM Chapter 4700* requirements was not an objective of our fiscal year 2009 audit of the special-purpose financial statements, and accordingly, we do not express such an opinion.

The results of our tests of compliance with *TFM Chapter 4700* disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of SBA's management, SBA's Office of Inspector General, the U.S. Department of the Treasury, OMB, and GAO, in connection with the preparation and audit of the *Financial Report of the U.S. Government*, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 13, 2009