



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

Memorandum

To: Darryl Hairston
Associate Administrator for Management and
Administration
/s/ Original Signed

Date: December 15, 2009

From: Debra S. Ritt
Assistant Inspector General for Auditing

Subject: Enhancements Needed in Processing Payroll Funded Under the Recovery Act
Report No. ROM 10-07

Attached is the Management Letter issued by KPMG LLP that identifies a matter that came to their attention during the audit of SBA's FY 2009 financial statements. This objective was to determine whether SBA's internal control over payroll processes provides complete and accurate reporting of Recovery Act funds.

KPMG addressed recommendations to the Chief Human Capital Officer. We provided a draft of KPMG's report to this official or his designee, who concurred with the finding. The official or designee agreed to implement the recommendations or has 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]

Cc: Jonathan I. Carver

**AMERICAN RECOVERY AND REINVESTMENT ACT
MANAGEMENT LETTER**

November 13, 2009

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 2009 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 aspects related to the implementation and operation of the ARRA programs that were in place as of September 30, 2009. However, our audit services under this contract modification did not include issuing an opinion on the effectiveness of the controls, and accordingly, we do not express our opinion on such controls.

During our audit, we noted a matter involving internal control concerning enhancements needed in the processing of ARRA payroll. 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 2009

ENHANCEMENTS NEEDED IN THE PROCESSING OF ARRA PAYROLL

CONDITION:

During our testwork over payroll expense funded by the American Recovery and Reinvestment Act of 2009 (ARRA) for the period June 1, 2009 to July 31, 2009, we noted the following exceptions:

Of fifty-three (53) ARRA payroll sample items reviewed, one (1) employee was erroneously compensated based on a GS 12 Step 2 salary rather than a GS 13 Step 1 salary for pay periods 10 through 13 (May 10, 2009 through July 4, 2009).

Of fifty-three (53) ARRA payroll samples reviewed, for one (1) sample item from the Office of Capital Access (OCA), the STAR Time and Attendance (T&A) Report was not signed by the employee's timekeeper and supervisor.

Of the nine (9) sample items for which the Office of Personnel Management (OPM) Form 71, *Request for Leave or Approved Absence* was applicable, one (1) sample item from the Office of Inspector General (OIG) was missing a supervisor signature.

CRITERIA:

The Government Accountability Office's *Standards for Internal Control in the Federal Government*, state, "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

Standard Operating Procedure 36 00, *Attendance and Leave*, states, "supervisors are responsible for ensuring that all employees under their supervision have worked the proper number of hours for the work schedule selected before signing individual Time and Attendance Reports." The SBA Manager's Toolkit states, "Ensure all STAR T&A Reports are signed by the timekeeper, employee, and supervisor."

The SBA *Manager's Toolkit Time and Attendance Responsibilities*, states, "Ensure OPM Form 71 (Request for Leave or Approved Absence) is completed and approved in a timely manner. Do not make handwritten changes to the OPM Form 71 without initialing or signing, which indicates approval by management. Ensure timekeepers do not transmit T&A before all the proper signatures are obtained."

CAUSE:

With regard to the compensation paid in error, the Office of Human Capital Management was apprised of a National Finance Center system malfunction that caused the error. However, this malfunction was not communicated timely to the Office of Financial Administration (OFA) in order to avoid the payroll processing error.

The matters regarding completion of the STAR T&A Report and the OPM Form 71 were caused by employee oversight.

U.S. SMALL BUSINESS ADMINISTRATION
American Recovery and Reinvestment Act
Management Letter Comments
FY 2009

EFFECT:

The error noted above resulted in a \$1,957 understatement of ARRA payroll expenses as of September 30, 2009.

RECOMMENDATIONS:

We recommend the Chief Human Capital Officer:

- 1) Continue to process personnel actions in a timely manner and expeditiously monitor system reports to ensure that employees are compensated based on approved administrative actions.
- 2) Continue to work with the OIG and Office of Capital Access management to reinforce the importance of approving the OPM Form 71 and STAR T&A Report through periodic training.

MANAGEMENT RESPONSE

SBA management concurs with the finding and recommendations.