



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

TRANSMITTAL MEMORANDUM

Report No. 14-05

DATE: December 17, 2013

TO: Jonathan I. Carver
Chief Financial Officer

FROM: Robert A. Westbrooks /S/
Deputy Inspector General

SUBJECT: *Independent Auditors' Report* on the SBA's FY 2013 Special-Purpose Financial Statements

The attached report presents the results of the audit of the Small Business Administration's (SBA) reclassified balance sheet as of September 2013 and 2012, 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). An independent public accounting firm, KPMG LLP (KPMG), performed the audit under a contract with the Office of Inspector General and in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements* and the *Treasury Financial Manual*, Part 2, Chapter 4700 (TFM 2-4700).

The independent auditor reported that the statements, including the Federal trading partner note, present fairly in all material respects, the financial position of the SBA as of September 30, 2013 and 2012. 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 also attached:

- (1) GF003F Closing Package Financial Statement Report;
- (2) GF003G Closing Package Line Reclassification Summary Report;
- (3) GF004F Federal Trading Partner Summary Note Report;
- (4) GF006 FR Notes Report;
- (5) GF007 Other FR Data Report;
- (6) Management Representation Letter on the Closing Package, including the Summary of Uncorrected Misstatement; and
- (7) Management Representation Letter on the audited financial statements, including the Summary of Uncorrected Misstatement.

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 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) 205-6587 or Jeffrey R. Brindle, Director, Information Technology and Financial Management Group at (202) 205-7490.

Attachment



KPMG LLP
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Independent Auditors' Report

The Inspector General,
U.S. Small Business Administration:

Report on the Closing Package Financial Statements

We have audited the accompanying Closing Package Financial Statement Report of the U.S. Small Business Administration (SBA), which comprise the Closing Package Financial Statement Report – Balance Sheets as of September 30, 2013 and 2012, and the related Closing Package Financial Statement Reports – Statement of Net Cost and Statement of Changes in Net Position for the years then ended, and the related Financial Report (FR) Notes Reports (except for the information in the FR Notes Report entitled “Threshold”, Text Data Line No. 2 in FR Notes Report No. 25, and Text Data Line No. 3 in FR Notes Report No. 26); the accompanying Additional Note – Summary of Significant Accounting Policies; the accompanying Trading Partner Summary Note Report – Balance Sheets as of September 30, 2013 and 2012; and the related Trading Partner Summary Note Reports – Statement of Net Cost and Statement of Changes in Net Position for the years then ended (hereinafter referred to as the closing package financial statements).

Management's Responsibility for the Closing Package Financial Statements

Management is responsible for the preparation and fair presentation of these closing package financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the closing package financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these closing package 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. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the closing package financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the closing package financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the closing package financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the closing package financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the closing package financial statements.



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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Closing Package Financial Statements

In our opinion, the closing package financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Small Business Administration as of September 30, 2013 and 2012, and its net costs and changes in net position for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

We draw attention to Additional Note – Summary of Significant Accounting Policies to the closing package financial statements, which describes that the accompanying closing package financial statements were prepared to comply with requirements of the U.S. Department of the Treasury’s *Treasury Financial Manual* (TFM) Volume I, Part 2, Chapter 4700 (TFM Chapter 4700) for the purpose of providing financial information to the U.S. Department of the Treasury and the U.S. Government Accountability Office to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of the consolidated balance sheets of the SBA as of September 30, 2013 and 2012, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as the “general-purpose financial statements”) for the years then ended. Our opinion is not modified with respect to this matter.

Other Matters

Opinion on the General-Purpose Financial Statements

We have audited, 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. 14-02, the general-purpose financial statements of the U.S. Small Business Administration as of September 30, 2013 and 2012, and our report thereon, dated December 16, 2013, expressed an unmodified opinion on those financial statements.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in Text Data Line No. 2 in FR Notes Report No. 25, Text Data Line No. 3 in FR Notes Report No. 26, and Other Data Report Nos. 1, 3 through 9, 14, and 17, except for the information included in the Other Text Data of Other Data Report No. 1 and the information in the Other Data Report No. 8 entitled “Threshold” (which are discussed below), be presented to supplement the basic closing package financial statements. Such information, although not a part of the basic closing package financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic closing package financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the closing package financial statements, and other knowledge we obtained during our audits of the closing package financial statements. We do not express an opinion or



provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Combining Statement of Budgetary Resources and Management's Discussion and Analysis that U.S. generally accepted accounting principles require to be presented to supplement the closing package financial statements. Such missing information, although not a part of the closing package financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the closing package financial statements in an appropriate operational, economic, or historical context. Our opinion on the closing package financial statements is not affected by this missing information.

Other Information

Our audits were conducted for the purpose of forming an opinion on the closing package financial statements as a whole. The information included in the Other Data Report Nos. 2, 10 through 13, 15, and 16; the information included in the Other Text Data of Other Data Report No. 1; the information entitled "Threshold" in the Other Data Report No. 8 and the information entitled "Threshold" in FR Notes Report Nos. 2 through 4B, 6, 8, 9, 15, 19, and 29A; the information in the Closing Package Line Reclassification Summary Report – Balance Sheet; the information in the Closing Package Line Reclassification Summary Reports – Statement of Net Cost and Statement of Changes in Net Position are presented for purposes of additional analysis in accordance with TFM Chapter 4700 and are not a required part of the closing package financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the closing package financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use of the Report on the Closing Package Financial Statements

This report is intended solely for the information and use of the SBA management and Office of the Inspector General, U.S. Department of the Treasury, OMB, and Government Accountability Office 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards and OMB Bulletin No. 14-02, we have also issued a combined auditors' report dated December 16, 2013 which presents our opinion on the SBA's general-purpose financial statements; our consideration of the 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*. That report should be read in conjunction with this report in considering the results of our audits of the closing package financial statements. Our audit of the general-purpose financial statements of the SBA as of and for the year ended September 30, 2013 disclosed the following significant deficiency and compliance matter:

- Significant Deficiency: Improvement Needed in Information Technology (IT) Security Controls
- Compliance Matter: Noncompliance with the Debt Collection Improvement Act of 1996



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Internal Control Over Financial Reporting Specific to the Closing Package Financial Statements

In planning and performing our audit of the closing package financial statements, we also considered the SBA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the closing package financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SBA's internal control. Accordingly, we do not express an opinion on the effectiveness of the SBA's internal control.

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 material weakness is a deficiency, or a 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. A significant deficiency is a deficiency, or a 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.

Our consideration of internal control for the closing package financial statements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters Specific to the Closing Package Financial Statements

As part of obtaining reasonable assurance about whether the SBA's closing package financial statements are free from material misstatement, we also performed tests of its compliance with certain provisions of TFM Chapter 4700. However, providing an opinion on compliance with those provisions was not an objective of our audit of the closing package 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. 14-02.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the SBA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 17, 2013