



U.S. Small Business Administration
Office Inspector General

Memorandum

To: Jon I. Carver
Chief Financial Officer

Date: December 15, 2009

Darryl Hairston
Associate Administrator for Capital Access

From: /s/ Original Signed
Debra S. Ritt
Assistant Inspector General for Auditing

Subject: Lack of Controls to Ensure Recovery Act Payroll is Complete and Accurate
Report No. ROM 10-08

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 2009 financial statements. The objective was to determine whether SBA had adequate controls in place to provide reasonable assurance that Recovery Act funds are properly controlled and the budget process is executed in accordance with federal guidance.

KPMG addressed recommendations to the Chief Human Capital Officer and you. We provided a draft of KPMG's report to each of these officials or their designees, who concurred with the finding relative to their respective areas. The officials or designees 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
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**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 lack of controls to ensure ARRA payroll is complete and accurate. 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

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LACK OF CONTROL TO ENSURE ARRA PAYROLL IS COMPLETE AND ACCURATE

CONDITION:

Through the budgetary quality assurance (QA) review process, the Office of the Chief Financial Officer (OCFO) discovered that for 20 employees whose salary was being funded by the American Recovery and Reinvestment Act of 2009 (ARRA), the payroll expense was erroneously charged to non-ARRA funds by the timekeepers. OCFO began making biweekly correcting journal voucher (JV) entries as part of its budgetary review process to move the payroll expense from non-ARRA funds to ARRA funds in the general ledger.

As part of our testwork, we selected the correcting JVs for eight (8) of the 20 employees and obtained supporting documentation to verify the correcting JV entries made by OCFO were accurate and complete. We noted for one employee that the JV entry to reclassify the payroll expense to an ARRA fund was incorrectly posted to the general ledger. A payroll expense transaction was returned to SBA after initial disbursement due to an inaccurate ACH routing number that was provided for direct deposit. However, the returned payroll transaction was not moved in conjunction with the original payroll expense from non-ARRA fund 90100DA to ARRA fund 900101DA in the correcting JV entry.

CRITERIA:

Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, states:

“Management is responsible for developing and maintaining effective internal control. Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the agency’s ability to meet its objectives, would be prevented or detected in a timely manner.”

OMB Memorandum M-09-15, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009*, dated April 3, 2009, states:

“Timely and accurate reporting by the Federal agencies provides both the Congress and taxpayers an ability to track and monitor all Recovery funds with the level of transparency and accountability envisioned in the Act in order to maximize transparency of Recovery Act spending required by Congress and the Administration. agencies must not commingle Recovery Act funds with other funds.”

CAUSE:

Incorrect extraction parameters were used to generate the ARRA payroll correcting JV report. As a result, payroll collections were excluded.

Prior to the implementation of ARRA programs, SBA timekeepers and supervisors were not adequately trained on how to ensure ARRA salary expense funds were properly coded during the Time and Attendance (T&A) approval process. Additionally, the initial OCFO budgetary QA reviews were performed with an incomplete listing of ARRA employees.

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EFFECT:

Due to the incorrect JV posting of the ARRA payroll expense item, non-ARRA S&E expense was understated and ARRA S&E expense was overstated by \$5,283.95.

RECOMMENDATIONS:

We recommend the Chief Financial Officer (CFO):

- 1) Post the correcting entry to the general ledger to reverse the ARRA S&E correcting JV in the amount of \$5,283.95.
- 2) Ensure the correct parameters are used to generate the payroll JV report so that the report is inclusive of all payroll activity.

We also recommend that the CFO work with the Chief Human Capital Officer to:

- 3) Provide training for all timekeepers and supervisors on how to ensure ARRA-funded payroll is properly charged to ARRA funds. The certification should be accomplished through the review of the accounting/project data listed on the T&A Report.
- 4) Ensure that weekly Office of Human Capital Management reports are utilized to identify ARRA employees for future ARRA S&E fund correcting JVs.

MANAGEMENT RESPONSE:

SBA management concurs with the finding and recommendations.