

ADVISORY MEMORANDUM REPORT
ON SBA'S FEDERAL INTRAGOVERNMENTAL
ACTIVITY AND BALANCES DATA

ADVISORY REPORT NO: 2-09

MARCH 4, 2002

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

ADVISORY MEMORANDUM REPORT
Issue Date: March 4, 2002
Number: 2-09

To: Thomas A. Dumaresq, Chief Financial Officer

Robert G. Seabrooks

From: Robert G. Seabrooks, Assistant Inspector General for Auditing

Subject: Agreed-upon Procedures Report for Federal Intragovernmental
Activity and Balances Verification

Attached is Cotton & Company LLP's agreed-upon procedures report for verification of SBA's Federal Intragovernmental Activity and Balances data. They noted that SBA has unreconciled Intragovernmental Standard General Ledger account balances with three of its trading partners. We recommend that you take actions to reconcile these differences, as appropriate.

Should you or your staff have any questions, please contact Robert G. Hultberg, Director, Business Development Programs Group at (202) 205-7577.

Attachment

COTTON & COMPANY LLP

auditors • advisors

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INDEPENDENT ACCOUNTANT'S REPORT ON AGREED-UPON PROCEDURES FOR FEDERAL INTRAGOVERNMENTAL ACTIVITY AND BALANCES

Inspector General
U.S. Small Business Administration

We have performed the procedures enumerated in the attachment, which were agreed to by the Department of the Treasury's Financial Management Service (FMS), General Accounting Office (GAO), and Office of Management and Budget (OMB), solely to assist you in evaluating the Small Business Administration's (SBA) management assertion that SBA compared Summarized Intragovernmental Activity and Balances data to related information in its consolidated financial statements as of and for the year ended September 30, 2001.

We performed this agreed-upon procedures engagement in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of specified report users. Consequently, we make no representation regarding the sufficiency of the procedures described in the attachment either for the purpose for which this report was requested or for any other purpose.

We noted that SBA has several unreconciled Intragovernmental Standard General Ledger account balances with federal trading partners. This matter is discussed in the attachment.

We were not requested to and we did not perform an examination, the objective of which would be the expression of an opinion on the intragovernmental data described above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Treasury, GAO, and OMB and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

COTTON & COMPANY LLP

By: Tony Allen for
Matthew H. Johnson, CPA

March 4, 2002
Alexandria, Virginia



established 1981

ATTACHMENT
AGREED-UPON PROCEDURES AND FINDINGS
FEDERAL INTRAGOVERNMENTAL ACTIVITY AND BALANCES

Procedure 1. We obtained and reviewed the electronic file provided by the Chief Financial Officer (CFO) of responses to Items (5) and (6) of the preliminary CFO Representations for Federal Intragovernmental Activity and Balances described in the Treasury Financial Manual (TFM) and copies of reconciliations and confirmations at Item (9). For each "Yes" response to Items (5) and (6), we performed the following steps with the agency's trading partners.

- a. We compared amounts in the reconciliations to supporting documentation.
- b. We traced adjustments identified in the reconciliation process that required recognition on SBA's books to documentation supporting recording of such amounts in SBA's financial records.

Findings

- 1a. SBA's intragovernmental confirmation process noted Standard General Ledger (SGL) account balance differences with three trading partners: the Department of Treasury's Federal Financing Bank (FFB), the Department of Labor (DOL), and the Office of Personnel Management (OPM). However, SBA did not clearly explain the differences.

Differences noted by SBA and additional explanations obtained and reviewed by the Independent Public Accountant are detailed below:

FFB. SBA's reconciliation process noted a \$14,222,628.97 difference between FFB's Account 5310G balance and SBA's Account 6310G balance, and a \$1,373,458.71 difference between FFB's Account 7110G balance and SBA's Account 7290G balance. Based on our review, we determined these differences are attributable to the treatment of a class of liquidating business loans (State Development 501), which were originally guaranteed by SBA and disbursed by FFB. After disbursement, SBA agreed to take custody of this loan principal and handle the accounting for these funds for FFB. A difference in accounting for these loans has developed between SBA and FFB. SBA does not recognize any interest expense on these loan amounts because they were guaranty loans in origin with no related debt. FFB recognizes interest income on these loans because its accounting methodology treats these loans as direct loans with interest accruing on outstanding borrowings.

DOL. SBA's reconciliation process noted a \$51,578.33 difference between DOL's Account 1310G balance and SBA's Account 2225G balance, and a \$89,987.07 difference between DOL's Account 5400G balance and SBA's Accounts 6400G and 6850G balances. SBA could not, however, identify a reason for these differences and did not have documentation to reconcile these amounts.

OPM. SBA's reconciliation process noted a \$15,480.29 difference between OPM's Account 1320G balance and SBA's Account 2213G balance, and a \$637,066.56 difference between OPM's Account 5400G balance and SBA's Account 6400G balance. SBA could not, however, identify a reason for these differences and did not have documentation to reconcile these amounts.

- 1b. We noted no differences.

Procedure 2. We obtained and reviewed the electronic file provided by the CFO for its responses to Item (11) of the final CFO Representations for Federal Intragovernmental Activity and Balances described in the TFM. For each "Yes" response to Item (11), we compared the amounts, excluding intradepartmental activity and balances, in the audited agency consolidated financial statements to such amounts in the agency's final FACTS I and/or FACTS I NOTES reports to FMS.

We noted no differences.