

ADVISORY MEMORANDUM REPORT
ON SBA'S FEDERAL INTRAGOVERNMENTAL
ACTIVITY AND BALANCES DATA
ADVISORY MEMORANDUM REPORT NO: 3-12
FEBRUARY 6, 2003

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

ADVISORY MEMORANDUM
REPORT

Issue Date: February 6, 2003

Number: 3-12

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 on verification of SBA's Federal Intragovernmental Activity and Balances data. They noted the following findings as a result of conducting the agreed-upon procedures: (1) five of SBA's fiduciary intragovernmental Standard General Ledger account balances are unreconciled with federal trading partners, (2) SBA did not reconcile all non-fiduciary transactions with federal trading partners for items designated as "Yes" on the CFO Representations for Federal Intragovernmental Activity and Balances, and (3) three differences exist between intragovernmental amounts presented in SBA's consolidated financial statements, including footnotes and required supplemental information, and amounts presented in SBA's Federal Agencies' Centralized Trail-Balance System submission.

The report is intended solely for the use of SBA's Office of Chief Financial Officer, the Office of Management and Budget, the General Accounting Office, and the U.S. Department of Treasury's Financial Management and Assurance Division and does not contain recommendations. 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

FEDERAL INTRAGOVERNMENTAL ACTIVITY AND BALANCES

Inspector General
U.S. Small Business Administration

Cotton & Company LLP performed the procedures enumerated in the attachment, Agreed-Upon Procedures and Findings, Federal Intragovernmental Activity and Balances. Such procedures were agreed to by the U.S. Department of the Treasury, Financial Management Service (FMS); General Accounting Office (GAO); and Office of Management and Budget (OMB). We performed our work in accordance with standards established by the American Institute of Certified Public Accountants solely to assist FMS, GAO, and OMB with regard to SBA's federal intragovernmental activity and balances data as of and for the year ended September 30, 2002. Such data are needed for FMS' preparation of consolidated financial statements of the United States government as of and for the year ended September 30, 2002, and for GAO's audit of those statements.

The sufficiency of the agreed-upon procedures is the responsibility of FMS, GAO, and OMB. Consequently, we make no representation regarding the sufficiency of procedures described in the attachment either for the purpose for which this report was requested or for any other purpose. U.S. Small Business Administration (SBA) management is responsible for the intragovernmental data and for complying with FMS criteria over intragovernmental transactions relating to SBA's principal financial statements as of and for the year ended September 30, 2002.

Our procedures identified the following findings:

- Five of SBA's fiduciary intragovernmental Standard General Ledger (SGL) account balances are unreconciled with federal trading partners (Finding No. 1a in the attachment).
- SBA did not reconcile all non-fiduciary transactions with federal trading partners for items designated as "Yes" on the CFO Representations for Federal Intragovernmental Activity and Balances (Finding No. 2a).



- Three differences exist between intragovernmental amounts presented in SBA's consolidated financial statements (including footnotes and required supplemental information) and amounts presented in SBA's Federal Agencies' Centralized Trail Balance System (FACTS) submission (Finding No. 3).

We were not requested to and we did not perform an examination, the objective of which would be the expression of an opinion on 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 FMS, 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



Charles Hayward, CPA

February 6, 2003
Alexandria, Virginia

**ATTACHMENT
AGREED-UPON PROCEDURES AND FINDINGS**

**U.S. SMALL BUSINESS ADMINISTRATION
FEDERAL INTRAGOVERNMENTAL ACTIVITY AND BALANCES
SEPTEMBER 30, 2002**

Agreed-Upon Procedure Nos. 1a and 1b

Obtain the electronic file provided by the Chief Financial Officer (CFO) of responses to Item 5 of CFO Representations for Federal Intragovernmental Activity and Balances described in the Treasury Financial Manual (TFM) and copies of reconciliations and confirmations. For each "Yes" response to Item 5, perform the following steps with SBA's trading partners.

- a. Compare amounts in the reconciliations to supporting documentation.
- b. Trace adjustments identified in the reconciliation process that required recognition on SBA's books to documentation supporting the 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 two fiduciary trading partners: the U.S. Department of Treasury, Federal Financing Bank (FFB); and U.S. Department of Labor (DOL). SBA did not, however, clearly explain the differences. Differences noted by SBA and our additional explanations are detailed below:

FFB. SBA's reconciliation process noted a \$11,371,318.58 difference between FFB's Account 5310G balance and SBA's Account 6310G balance and a \$2,210,839.23 difference between FFB's Account 7110G balance and SBA's Account 7290G balance. These differences are attributable to the treatment of a class of liquidating business loans (State Development 501), that were originally guaranteed by SBA and disbursed by FFB. After disbursement, SBA agreed to take custody of the 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 \$(98,323.22) difference between DOL's Account 1310G balance and SBA's Account 2225G balance and a \$(46,744.89) difference between DOL's Account 5400G balance and SBA's Accounts 6400G and 6850G balances. These differences are attributable to reconciling items DOL posted to its general ledger during FY 2002 and DOL's practice of not including administrative fees charged to agencies on its confirmation balances.

- 1b. We noted no differences.

Agreed-Upon Procedure Nos. 2a and 2b

Obtain the electronic file provided by the CFO of responses to Item 6 of CFO Representations for Federal Intragovernmental Activity and Balances described in the Treasury Financial Manual (TFM) and copies of reconciliations and confirmations. For each "Yes" response to Item 6, perform the following steps with SBA's non-fiduciary trading partners.

- a. Compare amounts in the reconciliations to supporting documentation.
- b. Trace 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

- 2a. SBA did not reconcile all non-fiduciary account balances at September 30, 2002; as a result, supporting documentation was not provided for the following non-fiduciary categories answered as "Yes" on the CFO Representations for Federal Intragovernmental Activity and Balances:

Account Category	SBA's Un-Reconciled Balance
Accounts Receivable	\$528,615.98
Advances	\$4,428,456.37
Accounts Payable	\$(24,889,202.41)
Other Liabilities	\$(940,714,562.15)

Documentation was provided to partially support the reconciliation of non-fiduciary gross costs. Gross costs of \$(101,132,581.40) remained unreconciled at September 30, 2002.

- 2b. We noted no differences.

Agreed-Upon Procedure No. 3

Obtain the electronic file provided by the CFO for its responses to Items 10 through 12 of CFO Representations for Federal Intragovernmental Activity and Balances described in the TFM. For each "Yes" response to Items 10 through 12, compare amounts, excluding intradepartmental activity and balances, in SBA's consolidated financial statements to such amounts in its final FACTS I and/or FACTS I NOTES reports to FMS.

Findings

3. We noted the following intragovernmental differences between SBA's financial statements and FACTS reports to FMS:
 - *Intragovernmental Accounts Payable* is \$27,992,000 per the financial statements, footnotes, and required supplementary information, and \$27,993,000 per FACTS reporting, for a difference of \$(1,000).
 - *Intragovernmental Gross Cost* is \$679,459,000 per the financial statements and footnotes and \$687,250,000 per FACTS reporting, for a difference of \$(7,791,000).
 - *Intragovernmental Earned Revenue* is \$468,027,000 per the financial statements, footnotes and required supplementary information, and \$468,265,000 per FACTS reporting, for a difference of \$(238,000).