

**AUDIT OF SBA'S COMPLIANCE WITH JOINT
FINANCIAL MANAGEMENT IMPROVEMENT
PROGRAM PROPERTY MANAGEMENT
SYSTEM REQUIREMENTS**

AUDIT REPORT NUMBER 3-34

JULY 23, 2003

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

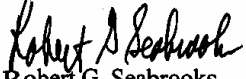
AUDIT REPORT

Issue Date: July 23, 2003

Report Number: 3-34

To: Thomas A. Dumaesq
Chief Financial Officer

Eugene Cornelius, Jr.
Assistant Administrator for Administration

From: 
Robert G. Seabrooks
Assistant Inspector General for Auditing

Subject: Audit of SBA's Compliance with Joint Financial Management Improvement Program (JFMIP) Property Management System Requirements

We completed an audit of the Small Business Administration's (SBA) property management system to determine if it complied with JFMIP property management systems requirements. This report presents the results of the audit.

BACKGROUND

SBA's property management responsibilities are generally maintained by the Office of Administrative Services (OAS). The majority of SBA's property is managed individually by control officers and accountability officers located at SBA program and field offices under the direction of OAS officials and agency Standard Operating Procedure (SOP) 00 13 4 - *Property Management Program*. The Fixed Asset Accounting System (FAAS) was developed in-house by the Office of Chief Information Officer (OCIO) to assist OAS officials and property officers in managing and accounting for personal property. The FAAS system has Graphical User Interface capabilities and a database management system available on SBA's local area network/wide area network that allows property managers to uniquely identify, record, edit, assign and track personal property valued at \$50 or more. This unique identification is established through barcodes affixed to each property item meeting the valuation criteria.

In addition to SBA's FAAS system, a separate system is in operation to manage capitalized property. In order for SBA property, plant and equipment (PP&E) to be capitalized, it must meet or exceed a value of \$50,000. This capitalization threshold has been raised to \$250,000 for internal use software. Capitalized property is managed by the Denver Finance

Center (DFC) in accordance with SOP 20 13 3 – *The Capitalized Accounting Program*. The DFC Administrative Accounting Branch uses the Administrative Accounting Property (AAP) system to record capitalized property transactions. SBA’s Joint Accounting and Administrative Management System (JA²MS) was the only asset that met the capitalization threshold. SBA valued JA²MS at \$6.83 million in its FY 2002 financial statements.

OBJECTIVES, SCOPE AND METHODOLOGY

The objective of the audit was to assess SBA’s compliance with applicable Federal requirements including JFMIP’s *Property Management Systems Requirements*. Specifically, the audit addressed the adequacy of SBA’s property management system in the following areas:

- Functional Requirements,
- Acquiring and Receiving Property,
- Managing and Accounting for Property, and
- Interface Requirements.

To accomplish this objective, we followed the General Accounting Office (GAO) – *Checklist for Reviewing Systems Under the Federal Financial Management Improvement Act*, developed from the JFMIP – *Property Management Systems Requirements* source document. We reviewed Federal Accounting Standards Advisory Board (FASAB) PP&E accounting standards, Office of Management and Budget (OMB) circulars related to property management, SBA property management SOPs and other regulations concerned with property management. We interviewed key SBA property officers and determined the universe of SBA’s owned or leased property with the exception of property acquired through its lending programs. We tested property transactions through SBA’s FAAS and evaluated the adequacy of property information contained in the system. Our audit was conducted at SBA’s Washington Headquarters’ Office between April 2002 and March 2003. We performed the audit in accordance with Government Auditing Standards.

AUDIT RESULTS

We concluded that SBA’s property management system complied with the requirements of the JFMIP in many areas. However, SBA’s property management system was not compliant with requirements for feeding property data into SBA’s core financial system and lacked necessary cost control and accountability features. We found that SBA’s property management systems are also fragmented and that no single agency-wide functional system is used. Agency property is managed at multiple locations, using different applications, each with varying degrees of accountability and control. As a result, SBA does not fully comply with Federal property management requirements and is unable to ensure all of its assets are properly safeguarded.

Finding 1: SBA Property Management Systems do not Interface

SBA's two property management systems, FAAS and AAP, operate independently of one another without interfacing. Additionally, the FAAS system does not interface with SBA's core financial system, JA²MS, beyond the level of recording the cost of property at the time of acquisition. As a result, SBA's property records are fragmented and amounts reported in agency financial statements do not easily link or reconcile with the different property management systems.

According to the JFMIP framework, all property systems that capture, use, and pass information should be linked. Additionally, JFMIP recommends that these systems interface with the agency's core financial system. Agency financial management systems including property management systems must be linked together electronically to be effective and efficient. The goal of interfacing these systems is to promote a single point of entry to populate the property management database while populating other financial management databases at the same time. This facilitates the ease of reconciliation between systems to ensure data accuracy.

SBA's FAAS is a good example of a property management system promoting a single point of entry to populate the property management database. However, the FAAS does not link or interface with SBA's core financial management or property management system.

Recommendation:

- 1A. We recommend that the Chief Financial Officer (CFO) either establish and implement an interface for the FAAS and the AAP with JA²MS, or consolidate the reporting of all property management functions in JA²MS.

Management Response:

The CFO agreed with the recommendation that all property systems that capture, use, and pass information should be linked. He stated, however, that SBA will not be able to address this recommendation until after the completion of more critical financial management improvements. The CFO's response is included in its entirety as Attachment 1.

Assessment of Management's Response

The CFO's comments are responsive to the recommendation.

Finding 2: Property, Plant and Equipment records are not Always Recorded in SBA Property Management Systems

SBA was not fully recording necessary property information in FAAS. This occurred even though SBA's FAAS is capable of capturing detailed property information including: acquisition cost, description, acquisition date, estimated life and depreciation. As a result, 59,475, or 84 percent, of 70,962 FAAS property records did not include associated costs and 50,043, or 71 percent of FAAS property records had default acquisition dates.

The Federal Managers' Financial Integrity Act (P.L. 97-255) establishes specific requirements with regard to management controls. The agency head must establish controls that reasonably ensure that assets are safeguarded against waste, loss, unauthorized use or misappropriation.

The JFMIP framework provides mandatory general requirements for property management systems to support the recording of beginning balances, acquisitions, withdrawals, and calculate ending balances expressed in values and physical units. This information is necessary to make property records complete and fully compliant with asset accountability requirements.

SBA property management officers generally omit the required information when creating property records in the FAAS system. This may hinder SBA officials in identifying and protecting SBA assets from waste, loss and unauthorized use or misappropriation. Additionally, the JFMIP requires that property management systems readily calculate gain or loss estimates at the time of disposal, retirement, sale, exchange or donation of assets. Since property cost data was not recorded at the time of its acquisition, SBA's property management system did not satisfy the JFMIP requirements.

Recommendations:

We recommend that the Assistant Administrator for Administration:

- 2A. Develop or utilize edit checks for detecting incomplete recording of accountable property in the Fixed Asset Accounting System.
- 2B. Inform all property managers of the importance of recording property values and acquisition dates in the Fixed Asset Accounting System.

Management Response:

These recommendations were initially made to the CFO in our draft report. Based upon the CFO's response, we met with the Assistant Administrator for Administration. The Assistant Administrator for Administration agreed with the finding and recommendations.

Assessment of Management's Response

The Assistant Administrator for Administration's comments are responsive to the recommendations.

Finding 3: Current Asset Capitalization Thresholds are not consistent with SBA's Standard Operating Procedures

The limits on capitalized property, including internal use software, have been increased twice without adjusting these limits in SBA's SOP 20 13 3 – *Capitalized Property Accounting Program*. The limits were raised from \$5,000 to \$50,000, and then further raised to \$250,000 with depreciation over three years for internal use software, an increase of 5,000 percent. SBA officials changed the capitalization threshold for both tangible property and internal use software property using internal decision documents. As a result, SBA's SOP 20 13 3 was not updated to reflect these changes.

SBA's SOP 00 23 5 – *SBA Directives Management* system requires that a partial revision to an SOP is necessary as soon as a program office changes program procedures or policies.

Since SBA's SOP 20 13 3 was not partially revised under established requirements, SBA is not in compliance with its own internal guidance regarding revision of operating procedures. It is important that SBA increase its diligence when changing internal control procedures. SOPs are an integral part of the SBA internal control environment and must be updated to maintain consistency and ensure adherence to policies and requirements to promote a sound control environment.

Recommendation:

- 3A. We recommend that the CFO revise SBA Standard Operating Procedure 20 13 3 to reflect changes in policies and ensure that processes required for managing property are appropriately updated.

Management Response:

The CFO agreed to update Standard Operating Procedure 20 13 3 to reflect current SBA capitalization thresholds.

Assessment of Management's Response:

The CFO's comments are responsive to the recommendation.

Finding 4: FAAS operational controls are Inadequate

The FAAS system had a number of operational control deficiencies. A single accountable property officer at OAS had Master User access to the FAAS system. This individual had full read, write, edit and delete capabilities for all property records. While this access was determined reasonable for administrative purposes, there was no separate oversight of this function. As a result, the Master User's actions within the system were not being monitored by OAS management.

SBA SOP 00 02 2 – *Internal Control Systems*, requires that management shall maintain effective systems of internal control consistent with standards prescribed by GAO as an integral part of management functions. The SOP concludes that segregation of duties over process and review transactions, including the issue, receipt, and custody of assets and comparison of physical and recorded assets may contribute to an effective internal control environment.

The FAAS Master User was the only individual at SBA that had full authorization, recording and reviewing privileges over the system. To maintain an effective internal control environment in its property management system, SBA should follow its internal operating procedures. In this regard, SBA should delegate these responsibilities among independent officers and perform appropriate monitoring of adherence to its operating procedures and controls.

Recommendation:

- 4A. We recommend that the Assistant Administrator for Administration designate a FAAS security manager to review audit logs and the activities of the FAAS Master User to monitor adherence to accountable property requirements.

Management Response:

This recommendation was initially made to the Chief Information Officer in our draft report. Based upon the CIO's response, we met with the Assistant Administrator for Administration. The Assistant Administrator for Administration agreed with the finding and recommendations. The CIO's response is included in its entirety as Attachment 2.

Assessment of Management's Response

The Assistant Administrator for Administration's comments are responsive to the recommendation.

* * *

The findings included in this report are the conclusions of the Auditing Division based upon the auditors' review of the agency's operating procedures and activities related to safeguarding accountable property. **The findings and recommendations are subject to review and implementation of corrective action by your office following the existing Agency procedures for audit follow-up and resolution.**

Please provide us your management decision for each recommendation within 30 days. Your management decisions should be recorded on the attached SBA Forms 1824, "Recommendation Action Sheet," and show either your proposed corrective action and target date for completion, or explanation of your disagreement with our recommendations.

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

Attachments



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

Attachment 1

JUL 10 2009

Date:

To: Robert G. Seabrooks
Assistant Inspector General for Auditing

From: Thomas A. Dumaresq
Chief Financial Officer

Subject: Audit of SBA's Compliance with JFMIP - Property Management System Requirements

Thank you for the opportunity to review your draft report on property management. We have the following comments for your consideration as you finalize your audit report.

Property Management Responsibility

The Office of Administrative Services (OAS) has the responsibility for the administration of the SBA's property management system. This includes administration of the Fixed Asset Accounting System (FAAS) to maintain records on the SBA's accountable property, as well as the procedure to conduct annual inventories on Agency accountable property. My office does, however, have the responsibility to account for "capitalized" property greater than \$50,000 or \$250,000 for Internal Use Software.

Recommendations 3A and 3B relate to the proper recordation of accountable property in the FAAS, including edit checks and instruction to property managers. The OAS has the responsibility for the administration of FAAS and for the procedures for recordation of accountable property. As a result, these recommendations should be directed to OAS. Also, recommendation 5B is for the CFO to improve the operational internal control over FAAS processing. Again, we suggest that this recommendation be directed to the OAS.

Recommendation 2A is to require that SBA record all intangible software property that it owns in a property management system. We are not aware of a Federal financial management requirement that requires all intangible software be recorded in a property management system. Also, we don't think that this is advisable, considering the complexity of the record keeping and the benefits from the additional control that would be achieved. We will continue to use the \$250,000 threshold to capitalize internal use software in the SBA's accounting records, and suggest that you remove this recommendation in your final report.

SBA IS AN EQUAL OPPORTUNITY EMPLOYER AND PROVIDER

SBA Property Management Systems do not Interface

Recommendation 1A is: "We recommend is that the Chief Financial Officer either establish and implement an interface for the FAAS and the AAP with the JA²MS, or consolidate the reporting of all property management functions in the JA²MS."

We agree with your finding related to the Joint Financial Management Improvement Program framework that "all property systems that capture, use, and pass information should be linked." However, since the SBA's property is not material to its financial results and since an integrated processing system for property management would be very expensive, in light of our FY 2002 financial statement audit we can not make this a financial management priority this year. As a result, the SBA will not be able to address this recommendation until after the completion of our more critical financial management improvements.

Current Asset Capitalization thresholds

Recommendation 4A is to update the SOP 20 13 for the current SBA capitalization thresholds. We agree with this recommendation and will issue an SBA Notice immediately and we have already begun to update SOP 20 13 to bring it up to date.

Bulk Purchase of Microsoft Server and Desktop Licenses

Recommendation 2B is to capitalize the bulk purchase of Microsoft licenses in SBA's accounting records in accordance with the Federal accounting standard for internal use software. We do not think that the Windows 2000/Office XP software that was installed last year should be capitalized under the Federal accounting standard. It was an update to the existing Microsoft software, not an enhancement with substantial increased system capacity and functionality, and therefore should not be capitalized under the Federal accounting standard. Also, we are not sure that it is appropriate to aggregate the licenses that were purchased for capitalization purchases. In addition, the SBA's independent auditor reviewed this process as part of the FY 2002 financial statement audit, and did not find this as an issue. As a result, we suggest that you drop this recommendation from your final report.

Conclusion

Again, we appreciate the opportunity to provide these comments to you prior to your finalization of your audit report on property management. I would be happy to answer any questions that you may have on these comments.




U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

Attachment 2

DATE: July 7, 2003

TO: Robert G. Seabrooks
Assistant Inspector General for Auditing

FROM: Stephen D. Galvan 
Chief Information Officer

SUBJECT: Audit of SBA's Compliance with JFMIP – Property Management
System Requirements

We have reviewed the above-referenced draft report. We agree with all the recommendations with the exception of 5A which recommends that the Chief Information Officer reestablish OCIO security access and responsibilities to the Fixed Asset Accounting System (FAAS). The finding states that OCIO disabled security capabilities to the system and therefore unauthorized modifications or access to system data was not regularly reviewed.

We believe there is a misunderstanding of the "Security" module that was removed from FAAS. The only purpose of that module was to provide the OAS security officer with a mechanism to store and track building security badges issued to SBA employees and contractors at HQ. OAS later decided to use other tools for badge issuance and processing. This module was never used, and never had the functionality, to review unauthorized modifications or access to the system data. The Master User still has the ability to review and change records as they have always done in the past. All security restrictions to prevent unauthorized changes are still in place.

As designed and implemented, the FAAS system maintains a log of all changes so that their review can be accomplished. Within FAAS, a history record is generated every time an equipment record is updated or deleted. In addition, the system utilizes the "logical delete" principle so all records marked as delete still reside in the database. Adhoc reports can be run if there is a need to review or audit the system.

If you require additional information, please contact Donna Clark, Director, Office of Information Systems Support, at 202-205-6012.

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