

**AUDIT OF SBA'S PROCESS FOR COMPLYING  
WITH THE FEDERAL MANAGERS' FINANCIAL  
INTEGRITY ACT REPORTING  
REQUIREMENTS**

**AUDIT REPORT NUMBER 4-34**

**JULY 29, 2004**

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**U.S. SMALL BUSINESS ADMINISTRATION  
OFFICE OF INSPECTOR GENERAL  
Washington, DC 20416**

<b>AUDIT REPORT</b>
<b>Issue Date: July 29, 2004</b>
<b>Report Number: 4-34</b>

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**Subject:** Audit of SBA's Process for Complying with the Federal Managers'  
Financial Integrity Act Reporting Requirements

We completed an audit of the process that SBA has developed in order to comply with the Federal Managers' Financial Integrity Act (FMFIA) reporting requirements and found that SBA needs to develop more effective procedures for compliance with FMFIA.

### **BACKGROUND**

In 1982, Congress passed FMFIA which requires agencies to develop cost-effective internal accounting and administrative controls. These controls are intended to help ensure that an agency's (1) obligations and costs comply with applicable laws; (2) funds, property, and other assets are safeguarded from waste, loss, or mismanagement; and (3) revenues and expenditures are properly recorded and accounted for. The Chief Financial Officers Act of 1990, requires the Chief Financial Officer (CFO) to develop and maintain internal controls within the Agency.

FMFIA tasked the General Accountability Office (GAO) and the Office of Management and Budget (OMB) to issue agencies guidance to assist them in establishing, assessing, and reporting on internal controls. As a result, *GAO Standards for Internal Control in the Federal Government* (GAO Standards), was issued to provide agencies an overall framework for establishing and maintaining internal controls and OMB Circular A-123, *Management Accountability and Control* (OMB Circular A-123), was issued to provide agencies specific requirements for assessing and reporting on internal control.

Section 2 of FMFIA requires the head of each agency to annually evaluate their agency's internal controls and report to the President and Congress on whether those controls comply with the GAO Standards. The agency head must include in the report any identified material weaknesses in the internal accounting and administrative controls as well as a plan for correcting those weaknesses. A material weakness is a deficiency in internal control that the Administrator determines to be significant enough to be reported outside the agency.

To satisfy this reporting requirement, SBA's Administrator certifies in SBA's Performance and Accountability Report (PAR) whether the Agency's internal controls are achieving their intended objectives in accordance with applicable requirements. This certification, referred to in this report as the "Administrator's assurance statement," is based on the following process as represented in the FY 2002 PAR.

District and headquarters managers employ various assessment tools to assess their internal controls. They submit assertion letters to the Office of the Chief Financial Officer (OCFO) and the Office of Field Operations (OFO) on the status of their respective organization's internal controls. These assertion letters also address any corrective actions the managers have taken with respect to weaknesses identified by GAO and the Office of Inspector General (OIG). CFO and OFO then review the assertion letters to ensure any areas of concern noted by the managers are incorporated into SBA's internal control process and determine whether all outstanding audit issues were adequately addressed. OFO provides comments to OCFO based on their review of the assertion letters from district managers.

OCFO is responsible for formulating the Administrator's assurance statement. Based on the letters from OFO and the headquarters offices, OCFO drafts the Administrator's assurance statement. The Administrator then certifies whether or not the Agency's controls are meeting their intended objectives in accordance with FMFIA and relevant GAO and OMB criteria. In FY 2002 and FY 2003, the Administrator provided a "qualified" statement of assurance due to one financial management related material weakness in FY 2002 and two weaknesses in FY 2003.

## **OBJECTIVES AND SCOPE**

The overall objective of this limited scope audit was to evaluate the adequacy of SBA's process for assessing and reporting on the effectiveness of its internal controls in accordance with section 2 of FMFIA, OMB Circular A-123, and the GAO Standards. The specific objectives were to (1) determine what policies and procedures SBA had implemented to ensure that SBA managers are meeting specific objectives of FMFIA; (2) assess the adequacy of the processes used by SBA to develop and implement appropriate controls, assess risks, improve internal controls, and report annually on the adequacy of its internal controls; and (3) determine the adequacy of procedures SBA used for gathering, assessing, summarizing, and reporting the data provided by its program and district offices for the development of the Administrator's statement of assurance. We did not perform an audit of SBA's internal controls, including controls associated with the Agency's accounting system, in accordance with the GAO Standards and OMB Circular A-123. Our purpose was to focus solely on the FMFIA assessment and reporting process.

To accomplish the objectives, we reviewed applicable laws and regulations including FMFIA, OMB Circular A-123, and the GAO Standards. We also reviewed SBA's internal policies and procedures including applicable SOPs, procedural notices, PARs and its internal control intranet website. Additionally, we judgmentally selected and interviewed responsible representatives from nine oversight, program and district offices as detailed in the table below.

<b>Office</b>	<b>Sampled Population</b>	<b>Total Population</b>	<b>Selected Offices</b>
Oversight	2	4	Office of Entrepreneurial Development and Office of Management and Administration
Program	3	21	Office of Women's Business Ownership, Office of Financial Assistance, and Office of Surety Guarantees
District	4	80	Washington Metropolitan Area District Office, Baltimore District Office, Philadelphia District Office and Richmond District Office.

We also reviewed the sampled offices', OCFO's, and OFO's procedures for identifying and assessing internal controls, collecting data and summarizing the results for the Administrator's FY 2002 and 2003 FMFIA assurance statements.

Fieldwork was performed in Washington, DC and at selected district offices from June 2003 to April 2004. The audit was conducted in accordance with Government Auditing Standards.

### **AUDIT RESULTS**

We determined that SBA has not established and maintained an effective process for ensuring SBA's compliance with FMFIA's annual internal control assessment and reporting requirements. We specifically concluded that:

1. SBA needs to more effectively communicate its FMFIA assessing and reporting requirements,
2. SBA's policies and procedures regarding internal control assessment are not sufficient,
3. Management is not performing complete risk assessments of their respective offices in accordance with regulations,
4. OCFO needs to take a more active role in monitoring the FMFIA reporting process,
5. SBA's FY 2002 PAR regarding the Agency's internal control process contained inaccurate information, and
6. SBA has a potential material weakness related to its FMFIA internal control assessment and reporting process.

SBA's lack of effective procedures for assessing and reporting on internal controls in accordance with FMFIA in itself is a potential material weakness. If not corrected immediately, this condition should be reported as a material weakness to the President and Congress in SBA's FY 2004 FMFIA assurance statement.

### **Finding 1: SBA Needs to More Effectively Communicate its FMFIA Assessing and Reporting Requirements**

The process for ensuring SBA's compliance with FMFIA's annual internal control assessment and reporting requirements needs to be communicated more effectively throughout the Agency. We found that:

- Sampled SBA managers were unclear as to their roles and responsibilities regarding FMFIA.
- Sampled managers were not aware of resources available to assist in the assessment of their internal controls.
- More than half of the required oversight and program offices did not provide assertion letters to OCFO in FY 2003.

This lack of information impaired management's ability to accomplish their duties and possibly led them to submit inaccurate internal control assessments to OCFO on the strength of their office's internal control structure. As a result, the Administrator may have released an inaccurate assurance of the Agency's internal control status to the President and Congress.

One way to help ensure SBA's compliance with FMFIA is to hold management accountable for the FMFIA process in their performance standards. A stronger understanding of the importance of FMFIA by Agency management will help ensure the data provided in the annual assurance statement is accurate and complete.

#### ***Responsible Oversight, Program and District Officials Were Unclear as to Their Roles and Responsibilities Regarding FMFIA.***

Officials from one oversight office, three program offices, and one district office did not understand what FMFIA was and their role in the FMFIA process. Despite the lack of understanding about the process, four of these officials certified in assertion letters to OCFO that their offices had met the stated internal control objectives of their operations and did not report any material weaknesses. Additionally, during interviews, none of the sampled program offices were able to go into specifics about the process they used to gather and summarize the information for the assertion letters. One program official did not even know their program office was required to assess internal controls annually. As a result, there is no assurance that the letters submitted by those oversight, program and district offices were accurate assessments of their internal controls.

Our audit also found that OFO did not have a clear understanding of its role in SBA's FMFIA process. SBA's internal control procedural notices for FY 2002 and 2003 required that

District Directors (DD), Branch Managers (BM), and Regional Administrators (RA) forward their assertion letters to OFO, which was responsible for consolidating the information and forwarding a summary to OCFO. The representative handling the assertion letter in OFO for FY 2002 stated it was his understanding that OFO was to act merely as a bridge of information between the field offices and OCFO. He thought when a district office sent an assertion letter to OFO it was simply his job to forward it to OCFO. The representative did not review the letters or summarize the information into a statement for OCFO. As a result, OFO did not know the district office's assessment of their internal control objectives and whether they reported any material weaknesses. The representative stated this occurred because he misread the procedural notice.

In FY 2003, OFO did review and summarize the assertion letters from the district offices, however, OFO did not provide the summarization to OCFO until after the draft assurance statement had been submitted for review by OCFO. As a result, OFO's assertion was not used in formulating the draft assurance statement in FY 2003.

OCFO officials acknowledged the required process was not followed, however, they stated that in both FY 2002 and 2003, the assertion statements from the district offices were reviewed by OCFO prior to the release of the Administrator's annual assurance statement. Therefore, the submitted assertion statements from the district offices were considered when formulating the Administrator's assurance statement.

***SBA Needs to Better Educate Its Employees about the Resources Available for Assessing and Improving Internal Controls.***

Although SBA has provided agency management and employees various internal control assessment tools via its internal control intranet website, we found that none of the sampled offices utilized these tools. As a result, Agency management and employees are not benefiting from the use of such tools when performing their annual internal control assessments.

In 1999, SBA set up the internal control website to implement an internal control framework within SBA. The website is very user friendly and provides internal control criteria and standards, information as to how the framework was being implemented into SBA, and provides assessment tools such as an information technology risk assessment template, risk assessment template, control evaluation template and action plan template. OCFO provided this beneficial information to Agency management and employees for their use in assessing and improving their office's internal controls.

Our audit found, however, that of the nine sampled offices, five of the offices were unaware of the tools on the website, and the remaining four offices were aware of the tools, but stated they do not use them. This may have occurred because OCFO did not issue guidance in its informational, policy, and procedural notices regarding internal control to educate managers and employees about the tools and how they are to be utilized.

One tool provided on the intranet website that we believe should be utilized is the corrective action plan template. OMB Circular A-123 states that corrective action plans should be developed for all deficiencies identified through the internal control assessment process, whether material or not. The template provided by OCFO includes steps that are to be followed to mitigate an identified problem. Each step is to have a due date, explanation of how the step will improve the problem and a person designated to oversee the work. Our audit found that none of the sampled offices questioned knew about the corrective action plan template available on the intranet website. We believe that using the corrective action plan template will help ensure that deficiencies are being mitigated effectively and efficiently.

### ***Requested Internal Control Assertion Letters Were Not Always Submitted***

For FY 2003, only 14 out of 29 internal control assertion letters were submitted by oversight and program offices to OCFO as requested by SBA's internal guidance. As a result, OCFO may have lacked sufficient data in developing the Administrator's FY 2003 internal control assurance statement. Therefore, the assertion letter released by the Administrator in FY 2003 may be unsupported and based on incomplete data.

In order to gather the information for the Administrator's annual assurance statement, OCFO released procedural notices in FY 2002 and 2003 requiring SBA management to submit an annual assertion letter regarding their respective office's internal controls. These statements would provide the Administrator with information on accomplishments and alert him to actual and potential problems within the organization's internal controls.

The internal control procedural notice for FY 2003 did not include a list of specified offices that were to submit an assertion statement to OCFO, as it did in FY 2002. Therefore, we concluded that for FY 2003, assertion letters were requested to be submitted by all managers to whom the procedural notice was addressed. This included all Associate Deputy Administrators (ADA), RAs, DDs, Associate Administrators (AA), and Directors of preferred lenders program (PLP) centers and servicing centers. The procedural notice stated that RAs and DDs were to provide their assertion letters to OFO and the Directors of PLP centers and servicing centers were to provide their letters to the Office of Capital Access.

Thus, 29 managers were requested to provide assertion letters to OCFO. Of the 29 managers, only 14 submitted letters to OCFO. This was a result of OCFO not clearly stating which agency officials were to submit assertion statements in the internal control procedural notice for FY 2003. Consequently, SBA needs to more effectively communicate which managers are required to submit assertion letters and to whom they are to be submitted to.

Based on discussions with OCFO officials, they agreed that the procedural notice requesting assertion statements did not clearly state which agency officials were to submit statements directly to OCFO. They stated, however, that it was only intended that statements be received from the ADA level officials and their letters in turn would be supported by the AAs of the program offices beneath them. Accordingly, they believe statements from the ADA level will provide a complete assessment of the agency. We agree that sufficiently supported assertion statements for the ADA level would cover part of the agency, however, offices that are not

headed by an ADA should be required to submit assertion statements to OCFO. Such offices include the Office of Disaster Assistance, Office of Veteran's Business Development and Office of the Chief Information Officer.

***SBA Management Should Be Held Accountable for Their Involvement in the FMFIA Process***

Based on the issues presented in this report, we believe that SBA should do more to enhance the internal control environment within the Agency. This will ensure that Agency managers and employees are aware of the important role they play in developing, maintaining and assessing their office's internal controls. To help accomplish this, we recommend SBA include FMFIA related job performance standards in its performance appraisal system for applicable Agency managers and OCFO officials. We discussed the feasibility of this idea with a representative from SBA's Office of Human Resources. It is our understanding that this can be done as long as SBA clearly defines its expectations of managers with respect to FMFIA.

We believe that holding management accountable for their involvement in the FMFIA process would create a more positive and supportive attitude towards internal control. Additionally, this would help ensure that managers are maintaining and assessing their internal controls and risks according to applicable criteria.

**Recommendations:**

We recommend that the Chief Financial Officer:

- 1A. Develop policies and procedures for SBA managers that explain FMFIA and their responsibilities regarding FMFIA. The policies and procedures should establish guidelines for the evaluation by Agency managers of their systems of internal accounting and administrative controls.
- 1B. Provide training to SBA management on the policies and procedures developed as a result of recommendation 1A.
- 1C. Take actions to make Agency managers aware of the resources (i.e. intranet tools of risk and internal control assessment) that are available on SBA's intranet website and educate the managers on how to best utilize these resources in performing internal control assessments.
- 1D. Work in conjunction with the Office of Human Resources to incorporate FMFIA related job performance standards in the performance appraisals of selected SBA managers and clearly define the standards for which managers are to be held accountable.

We recommend that the Associate Administrator for Field Operations:

- 1E. Work in conjunction with the Chief Financial Officer to inform all Regional Administrators and District Directors about FMFIA and their responsibilities regarding FMFIA.



## **SBA Management's Response:**

OCFO generally disagreed with finding 1 and related recommendations 1A and 1D in our draft report. OCFO agreed with recommendations 1B and 1C. OFO agreed with recommendation 1E.

OCFO believes that the cause for finding one is more accurately defined as a communication issue rather than SBA not having established and maintained an effective process for reporting on internal controls according to section 2 of FMFIA. They requested that we change the first sentence of finding one to reflect the idea that procedures for FMFIA compliance need to be more adequately communicated.

OCFO disagreed with the section of finding 1 entitled, "Required Internal Control Assertion Letters Were Not Always Submitted." They stated that while the notice requesting the assertion letters was sent to 29 managers, it was not their intent that all 29 managers submit an assertion letter to OCFO. OCFO stated that their intent was to receive letters from only the ADA level, but they could ask their lower level management to provide assertion statements and use them in their coordination, conclusion and summarization.

With respect to the section of finding 1 entitled, "Responsible Oversight, Program and District Officials Were Unclear as to Their Roles and Responsibilities Regarding FMFIA," OCFO agreed that OFO did not review the assertion letters submitted by the district offices and did not submit a summary in FY 2002. However, OCFO felt that it was important to point out that even though OFO had not reviewed the letters from the district offices, the district letters were reviewed by OCFO.

OCFO also stated that in FY 2003 OFO did review and summarize the assertion letters from the district offices but it was also correct that OFO did not provide the summarization until after the draft assurance statement had been submitted for review. OCFO further stated that OFO had verbally assured OCFO that none of the assertion letters from the district offices contained any material weaknesses and OCFO had reviewed the letters prior to circulating the draft assurance statement.

With respect to the section of finding 1 entitled, "SBA Management Should Be Held Accountable for Their Involvement in the FMFIA Process," OCFO believes that although the performance standards do not specifically mention FMFIA, internal controls are covered in the Personal Business Commitment Plans (PBCs) for Supervisors, Managers and Senior Executive Service officials. OCFO believes that instead of modifying the current PBCs, OCFO should concentrate on training those individuals to achieve a similar result. OCFO proposed that recommendation 1D be eliminated. OCFO's response is included in its entirety as Attachment 1.

With regard to finding one and recommendation 1E, OFO agreed with the finding and recommendation as stated in the report. In their response to the OIG, OFO points out that FMFIA is the primary responsibility of OCFO and throughout the report it should be represented as such. OFO's response is included in its entirety as Attachment 2.

## **OIG Evaluation of Management's Response:**

OCFO's planned actions are responsive to recommendations 1B and 1C. OFO's planned actions are responsive to recommendation 1E.

We agree with OCFO that the issues under finding 1 could be more accurately described as resulting from a communication problem rather than SBA having an ineffective process in place for FMFIA compliance. In turn, we revised the first sentence to reflect that the FMFIA annual internal control assessment and reporting requirements need to be more effectively communicated throughout out the Agency.

In addition, while it may have been the intent of OCFO to only receive assertion letters from the ADA level, this was not clearly stated in the procedural notice requesting assertion letters. Accordingly, we believe that all ADAs and AAs should have submitted an assertion statement in FY 2003.

We also believe that only receiving assertion letters from the ADAs would not be sufficient information to support the Administrator's assurance statement. While an assertion statement provided by an ADA should be supported by the assertion statements from the AAs of the program offices underneath that ADA, there are several offices within the agency that are not headed by an ADA. Examples of these offices include the Office of Disaster Assistance, Office of Veterans Business Development, and Office of the Chief Information Officer.

We agree that not all 29 managers need to be required to submit assertion statements to OCFO if they fall under a supervisory manager who is required to submit an assertion statement to OCFO. We changed the wording in the finding to state that the 29 managers were requested to submit assertion statements and concluded that SBA needs to more effectively communicate which managers are required to submit assertion letters. We also included a paragraph in the audit report stating that receiving assertion statements from only ADAs would not be sufficient to support the Administrator's assurance statement as some program offices do not report to an ADA.

We agree that OCFO reviewed the district offices assertion letters prior to the release of the assurance statements in FY 2002 and FY 2003. Therefore, we added additional language to the finding to clarify this point.

We reviewed the PBCs for Supervisors, Managers and Senior Executive Service officials and believe that internal control reporting is not sufficiently addressed in the PBC. We still believe that, if possible, PBCs for applicable Agency managers and OCFO officials should be modified to include FMFIA internal control assessment and reporting elements. In turn, the applicable recommendation remains unchanged.

## **Finding 2: SBA Has Not Developed Sufficient Policies and Procedures for the Agency's Internal Control Assessment Process**

OCFO has not developed sufficient policies and procedures for ensuring the Agency's compliance with FMFIA. SBA's internal control SOP is outdated leaving SBA management to rely on a procedural notice as their guidance regarding internal control assessment. While a procedural notice can be used for disseminating information throughout the Agency or as temporary guidance, it should not serve as the only source of guidance regarding internal control assessment. As a result, SBA has not provided management sufficient permanent policies and procedures to allow them to properly assess internal control, including providing management with a definition of material weakness as it relates to SBA and its objectives.

### ***Effective Standard Operating Procedures for Internal Control are Outdated***

SBA's current internal control SOP is outdated as it does not incorporate the current GAO Standards as well as provisions of other applicable laws. As a result, SBA management and employees do not have proper standards and guidance for establishing, maintaining, and evaluating the internal control systems within their offices.

In 2001, OCFO developed a revised SOP for internal control that updated SBA's current policies. Draft SOP 00 02 3, *Internal Controls*, was sent through the appropriate channels for clearance, including review by the Office of General Counsel (OGC) and the Office of Inspector General (OIG), but was never issued in final.

OCFO officials stated that SOP 00 02 3 was never issued in final due to reorganization of OCFO, the passage of the Sarbanes/Oxley Bill and the incorporation of comments from OGC. Because draft SOP 00 02 3 was never finalized, SBA is still under the direction of SOP 00 02 2, which is outdated. SOP 00 02 2 was finalized in 1986 and does not include provisions from the Chief Financial Officer's Act of 1990, Government Performance and Results Act of 1993, Government Management Reform Act of 1994, Federal Financial Management Improvement Act of 1996, Federal Information Security Management Act of 2002, OMB Circular A-123 issued in 1995 and the GAO Standards issued in 1999. OCFO also stated that a new SOP is in final clearance and they anticipate issuance over the next 60 to 90 days.

### ***SBA Officials Did Not Have a Universal Understanding on What Weaknesses Should Be Classified as Material Weaknesses.***

An important part of internal control assessment is the identification of reportable material internal control weaknesses. The Administrator's annual internal control assurance statement to the President and Congress is required to include any material weaknesses that are present in SBA's internal control system.

When the nine sampled offices were asked how they defined material weakness, they generally provided the following four responses:

<b>Definition of Material Weakness</b>	<b>Oversight</b>	<b>Program</b>	<b>District</b>
Keeps the program from being able to perform its proper function and mission	√	√	√√
Anything that effects the integrity of the program		√	√
Determined based on money thresholds and the wasting of government funds	√		√
Higher level of program weakness than an auditor's determination of a internal control weakness		√	
√ represents one office's response			

While all of these responses may indicate that a material weakness exists, this shows that there is not a universal understanding by Agency management on what deficiencies should be considered material weaknesses. Accordingly, Agency management in SBA's program oversight offices may be defining material weakness differently than the program offices they oversee. This could lead to a material weakness not being properly identified at several levels and disclosed to upper management and/or outside the Agency as appropriate.

We believe this is caused by a lack of internal Agency guidance on this matter. While SBA issues a procedural notice to Agency management annually regarding internal control assessments, this guidance is not detailed enough. The guidance states that material weaknesses are to be reported by agency managers in their assertion letters and references OMB Circular A-123 as the Agency's definition of material weakness. This circular does not give a clear definition of an internal control weakness; it merely states that a material weakness is a deficiency that the agency head determines to be significant enough to be reported outside the agency.

Therefore, SBA should issue guidance which defines material weakness as it relates to all levels within the Agency. The GAO Standards state that management is responsible for developing detailed policies and procedures to fit their agency's operations. By providing specific guidance on what the agency deems to be a material weakness, this will help agency managers determine if weaknesses such as those identified by the OIG as serious agency management challenges and those identified by the OIG's independent auditors as a result of the annual financial statement audit, should be reported outside the agency.

To illustrate, the OIG noted in its FY 2002 and 2003 management challenges reports, several areas where SBA programs or activities pose significant risk. However, the Administrator's assurance statement for FY 2002 did not include any of the challenges as material, and in FY 2003, only weaknesses related to one of the challenges were considered material. Without clear guidance, there is no assurance that Agency managers are giving proper consideration to the results of OIG and other independent reviews when formulating their assertion letters.

We found that other agencies had developed definitions of material weakness specific to their agency. For example, the National Oceanic and Atmospheric Administration defines material weakness as a serious problem that could significantly impair the fulfillment of an agency or component's mission, deprive the public of needed services, violate statutory requirements, weaken safeguards against waste and loss or result in a conflict of interest. Also,

U.S. Army White Sands Missile Range which provides quality test, evaluation, research, and other technical services to the Army and Department of Defense determines materiality by the degree of impaired mission accomplishment, statutory violations, information security impact and public deprivation of Government services. Further, the Department of Interior formed a material weakness team who developed criteria for defining a material weakness as it related to their agency.

### **Recommendations:**

We recommend that the Chief Financial Officer:

- 2A. Take appropriate action to revise, clear and issue draft SOP 00 02 3 within 120 days and include the policies and procedures described in recommendation 1A.
- 2B. Clearly define material weakness as it relates to SBA and its programs in SOP 00 02 3 and define material weakness at the different levels of management within the Agency.

### **SBA Management's Response:**

OCFO generally agreed with finding 2 and recommendations 2A and 2B, but disagreed with the reasons listed in the draft report for why SOP 00 02 3 had not been issued. OCFO stated that there has not been a "loss of motivation" to get the SOP issued in final, but rather the SOP was delayed due to a number of factors including: the reorganization of OCFO, passage of Sarbanes/Oxley, and the incorporation of comments from the Office of General Counsel. Additionally, they believe it is unfair that we represent in the report that OCFO has to devise a plan of action regarding internal control implementation before issuing an updated SOP. They believe that SBA already has an active internal control system.

They also noted that the new SOP would be in final clearance and anticipate issuance over the next 60 to 90 days. In addition to the SOP finalization and issuance, OCFO stated they would be issuing more detailed informational notices and providing management training to managers throughout the Agency. In conclusion, OCFO asked that we remove paragraphs 3 and 4 and indicate that a new SOP is in draft.

OCFO agreed with the section of finding 2 entitled, "SBA Officials Did Not Have a Universal Understanding on What Weaknesses Should Be Classified as Material Weaknesses," and stated that more detailed information regarding material weakness would be beneficial. OCFO also wanted to ensure that the report clearly states that the definition used by the Agency is identical to the definition as it is stated in OMB Circular A-123.

## **OIG Evaluation of the Management's Response:**

We have removed the sentence regarding what was stated by an OCFO official in an interview regarding the loss of motivation to issue SOP 00 02 3 in final due to a change in leadership in the Administration and OCFO. The sentences regarding the current SOP being outdated and the applicable provisions not being included in the SOP are statements of fact and will remain.

We also removed the sentence that stated OCFO officials in a recent interview acknowledged that they have taken no action to get a current SOP finalized and would not do so until OCFO had devised a plan of action regarding internal control implementation. We instead stated that a new SOP is in final clearance and OCFO anticipates issuance over the next 60 to 90 days.

With respect to ensuring the report reflects that the Agency's definition of material weakness is identical to the definition in OMB Circular A-123, we added additional wording to the finding in order to clarify that point.

### **Finding 3: SBA is not Performing Complete Risk Assessments in Accordance with Applicable Requirements**

SBA management is not performing a complete risk assessment of their respective offices in accordance with the GAO Standards. In FY 2003, all seven of the sampled program and district offices stated that they performed a systematic risk assessment. The two sampled oversight offices, however, did not perform risk assessments. We reviewed the documentation provided by the sampled offices to support their risk assessment and found the assessments to be incomplete. Risk assessment is a preventative process, allowing management to identify potential weaknesses that impede the ability to accomplish program or operating objectives before they occur. By not performing complete risk assessments, SBA may develop weaknesses that could have been deterred had the assessment been properly performed.

Annual risk assessments are an integral part of evaluating an agency's internal controls. Risk assessment can be broken down into a four step process. According to the GAO Standards an agency must:

1. Develop clear and consistent objectives, such as those defined in the strategic and annual performance plans. (*Example - upgrade office's management information systems by March 31, 2004*)
2. Identify all risks, both internal and external, that would keep the office from achieving the clear and consistent objectives. (*Example risk - office will be unable to properly orient and train the employees using the upgraded system by March 31, 2004*)
3. Analyze each risk for its effect, significance and likelihood of occurrence.
4. Decide on how to manage the risk and what actions should be taken.

This process is performed to ensure that current internal controls are sufficient to meet newly developed goals and objectives. If risks are identified, management has the opportunity to create new internal controls to ensure that the goals and objectives can be met.

As part of the assertion letter preparation process for FY 2003, SBA managers were asked in the procedural notice regarding internal control assessment to refer to the assertion letter template on OCFO's intranet website. The assertion letter template is an outline of what the assertion letter should include and how it should be formatted. The template has a specific section regarding the performance of systematic risk assessments. OCFO gave managers two options to complete a systematic risk assessment. Managers could complete an Agency developed internal control checklist or perform their own management analysis.

### Internal Control Checklist

SBA developed the internal control checklist by incorporating the results of a mapping process that was performed on all program offices and most district offices between 1999 and 2001. Mapping was a formal, documented process in which employees judged the effectiveness of the processes in their respective offices to meet their objectives. The checklist is a 49 page document that breaks down various functions performed within SBA (e.g. loan process, surety bond guarantee, and 8(a) business development review). The functions are then broken down into detailed step-by-step activities that need to be completed in order to carry out the task.

Of the 69 district offices and 14 program offices that provided assertion letters in FY 2003, 59 district offices and 1 program office stated in their assertion letters that they completed the internal control checklist as their risk assessment. Of the nine offices in our sample, all four district offices and one program office completed the checklist. We reviewed the internal control checklist to determine if it complied with the four steps of risk assessment according to the GAO Standards. It complied with one step, partially complied with two steps, and did not comply with the remaining step as shown on the following table.

	<b>Risk Assessment Step</b>	<b>Compliance</b>	<b>Reasons for non-compliance</b>
<b>1</b>	Goal development	Yes	
<b>2</b>	Risk identification	Partially	The checklist does identify internal risks by identifying required activities within the tasks that are not being performed by an office. The checklist, however, does not identify any external risks. It is important to note that as new functions or tasks are introduced into the Agency the checklist needs to be updated and the activities listed.
<b>3</b>	Risk analysis	Partially	The checklist does not provide a step for analyzing a risk's occurrence and its possible effect. The checklist only estimates the risk's significance based on ranking each activity on a scale of 1-4, 1 being a significant problem and 4 not as significant.
<b>4</b>	Risk mitigation	No	The checklist does not require the user to create any mitigating plans or actions to prevent the risk from occurring.

While the checklist is a useful tool for program and district offices to use for risk assessment, we determined that it did not allow for a complete risk assessment to be performed. For steps three and four, we asked that the offices provide supporting documentation that these steps were performed. None of the offices were able to provide the documentation. They stated that the remainder of risk analysis and all of risk mitigation were performed through management meetings and none of these meetings were documented. As a result, there was no documentation to support that complete risk assessments had been performed in accordance with the GAO Standards.

## **Management Analysis**

The other option given to managers for performing a risk assessment was to perform a management analysis of their business process, functions and/or area. OCFO advised that the managers also gather information through management and staff interviews.

Of the 69 district and 14 program offices that provided assertion letters in FY 2003, 7 district offices and 7 program offices stated in their assertion letter that they performed management analysis for risk assessment. Of the nine sampled offices, two program offices stated that they performed a management analysis for risk assessment. We reviewed available documentation provided by the program offices to support their management analyses to determine if they had performed a risk assessment according to the GAO Standards.

We determined that the program offices complied with the first step of risk assessment, goal identification, according to the GAO Standards. Both program offices had goals and projects listed in SBA's Scorecard (e.g. counsel 41,000 clients by September 30, 2004) which directly tied back to one of SBA's three strategic goals. The Scorecard is an SBA internal tracking system where oversight, program and district offices establish product and/or production related goals. The office then updates the Scorecard and tracks its progress in achieving those goals throughout the year. The Scorecard tallies production and states whether the goal was or was not accomplished.

Our audit found, however, that the program offices did not comply with the three additional risk assessment steps of risk identification, analysis and mitigation. The documentation provided by the sampled program office to support their management analyses consisted of reviews of program participants. These reviews were compliance reviews to determine whether the program participants were complying with applicable federal regulations, SBA SOPs, and other specified SBA guidance. These reviews did not address, assess, or mitigate risks that would keep the program office or program participant from achieving the goals specified in the Scorecard.

As a result, we concluded that the management analyses performed by the two selected offices were not a complete risk assessment according to the GAO Standards. We believe that this occurred because SBA management did not receive proper guidance on how to perform risk assessments and understand their importance in the internal control assessment process. Furthermore, such weaknesses in the internal control assessment process undermine the Administrator's ability to provide an accurate and complete assurance statement.



## **Recommendations:**

We recommend that the Chief Financial Officer:

- 3A. Provide detailed guidance to the oversight, program and district offices to explain how and when they are to perform and document a complete risk assessment according to the GAO Standards.
- 3B. Update the internal control checklist as new functions are introduced into the Agency.

## **SBA Management's Response and OIG's Evaluation of Management's Response:**

OCFO agreed with finding 3 and recommendations 3A and 3B regarding actively maintaining the internal control checklist and including information about risk assessment in the internal control guidance. OCFO believes that through the implementation of the Loan Monitoring System, the Agency has made substantial progress in the area that may represent the largest risk. OCFO's planned actions are responsive to recommendations 3A and 3B.

## **Finding 4: OCFO Should Take an Active Role in Monitoring the FMFIA Process**

SBA should take a more active role in monitoring the FMFIA process. Our audit found that OCFO (1) did not ensure that all program office assertion statements were submitted timely, (2) did not ensure that all required program offices provided assertion letters, and (3) did not provide feedback to management regarding their internal control assessments. As a result, there is no assurance that OCFO had adequate data to support the Administrator's assurance statement.

### ***Managers Did Not Submit Their Assertion Letters by the Required Deadline***

For FY 2003, none of the 14 assertion letters received by OCFO from the oversight and program offices were received by the required due date. As a result, this may not have given OCFO the necessary time to perform a sufficient review of the information provided in the assertion letters before drafting the Administrator's assurance statement.

The internal control procedural notice, issued in FY 2003, required the assertion letters to be completed and forwarded to the Chief Financial Officer by October 1, 2003. Seven of the 14 letters were submitted in November, 5 letters were submitted in December, and 2 letters were submitted in January of the next year, including 1 letter which was submitted after the draft assurance statement had been circulated for clearance by OCFO to the OIG and OGC. OCFO needs to ensure that the offices are providing their assertion letters in time for their review and inclusion in the Administrator's annual assurance statement.

### ***Requested Oversight and Program Managers Did Not Provide Assertion Letters***

As presented in finding 1, in the section titled *Requested Internal Control Assertion Letters Were not Always Submitted*, 15 of the 29 requested oversight and program managers did not provide an assertion letter in FY 2003. As a result, OCFO lacked sufficient data in developing the Administrator's FY 2003 internal control assurance statement. The lack of program offices providing assertion letters shows that there is need for OCFO's active involvement in ensuring each requested program office submits their assertion letter so that the assurance statement is adequately supported.

### ***SBA Did Not Provide Feedback to Management Regarding Their Internal Control Assessment***

Eight out of the nine sampled offices stated during interviews that they did not have any communication with OCFO during or after the FMFIA assessment process. The remaining office stated that they could not recall if they had been contacted by OCFO.

In order to help ensure that the assertion letters being provided by Agency managers are acceptable and fulfill the needs of the Agency, OCFO should routinely communicate with the Agency management throughout the assessment process. This communication should help OCFO determine whether Agency managers are conducting assessments timely, thoroughly, and in accordance with the applicable guidance. Also Agency management would be more likely to inquire of OCFO when they have a question about the assessment process.

To illustrate this point, a representative from one district office stated during an interview that she had questions regarding the internal control checklist and how it is supposed to be used, but did not know who in OCFO to contact. Another representative from the same district office said that even if they were to ask questions about the checklist it would cause too much chaos and it was not worth the headache. If OCFO provided and maintained contact with the responsible Agency managers during the assessment process, this type of confusion should be minimized. Not having open communications with the program and district office regarding the assessment tools and assertion letter opens the possibility that management may not be using the tools properly and leads to inconsistencies in reporting.

### **Recommendation:**

We recommend that the Chief Financial Officer:

- 4A. Develop monitoring policies and procedures that will help ensure that the Administrator's assurance statement is based on complete and accurate data.

### **SBA Management's Response:**

OCFO partially disagreed with finding 4 and the related recommendation. Even though OCFO is in agreement that the assertion letters were not received timely, they stated that when no response was submitted by a responsible ADA, AA or district director, there was a follow up process via telephone. OCFO also disagreed with the section of the finding entitled, "Required Oversight and Program Managers Did Not Provide Assertion Letters." See management's response and our evaluation of management's response in finding 1. Additionally, OCFO believes that they supplied sufficient OCFO contact information in their internal control procedural notice as the notice states that the CFO will be glad to answer any questions or provide additional information.

In conclusion, OCFO reiterates that it is evident that training for management needs to be provided, which they are going to provide in the near future. In addition to issuing a procedural notice this year, OCFO will organize conference calls by regions to the field offices to reinforce the message of the procedural notice and provide an opportunity for the district directors to ask questions. These questions will be answered on a one-to-one basis and district directors will be encouraged to contact the Office of Analysis, Planning and Accountability (OAPA).

### **OIG Evaluation of Management's Response:**

We have removed the statement that OCFO did not follow up with management when they did not provide their requested assertion letters by the due date and instead stated that OCFO did not ensure that all program office assertion statements were submitted timely. As far as having the CFO act as the primary contact for any assertion statement questions, it is apparent that the program and district offices did not take advantage of that offer. We believe that OCFO as the responsible office for this process, should take a proactive approach in ensuring that requested officials both understand the complete process and are properly using the tools available.

We believe that providing training to management, actively communicating with asserting officials and dedicating a specific contact office within OCFO, are all steps in the right direction. It is important to note that conference calls with the district directors will only partially solve the problem. OCFO needs to also talk to the program officials within the Agency to reinforce the message of the internal control procedural notice and provide program officials an opportunity to ask questions and speak with OAPA directly. We recommend that these meetings not be exclusively held with the asserting official, but also the managers who are assisting in the internal control assessment and assertion statement writing process.

### **Finding 5: SBA's FY 2002 Statement on Internal Controls Contained Inaccurate Information**

As discussed in finding 1, several of the Agency managers we interviewed were unclear as to their roles and responsibilities with respect to FMFIA. This confusion led to SBA including inaccurate information in SBA's FY 2002 PAR regarding the process used to

gather the information for the Administrator's assurance statement. SBA stated in the PAR that OFO reviewed the assertion letters from the district managers and ensured that any areas of concern noted by district managers were reported and trends were incorporated in the Agency's internal control efforts. SBA further stated that based on this review, OFO provided comments to OCFO.

This statement is inaccurate. OFO stated they did not review the assertion letters provided by the district offices and did not provide an assertion letter or similar document to OCFO during FY 2002 (see details in Finding 1). Despite the fact that OCFO did not receive an assertion letter from OFO, which would indicate that the aforementioned requirement had not been met, OCFO included a statement in the PAR regarding the assurance statement development process that was incorrect. This problem indicates a serious lack of controls within the Agency to oversee the annual internal control assessment process.

#### **SBA Management Response:**

OCFO generally agreed with finding 5 but believes that it would be more appropriate to include it as evidence that internal control procedures need to be better communicated throughout the agency. They believe that because this was an issue in FY 2002 and was corrected in FY 2003, that the issue does not merit being a finding and recommendation on its own.

#### **OIG Evaluation of Management's Response:**

The finding addresses an issue that occurred during the time period covered by the audit and, therefore, the finding remains unchanged. As a result of the issue being corrected in FY 2003, we have removed the recommendation.

#### **Finding 6: Potential Material Weakness Identified in the FMFIA Assessment Process**

OMB Circular A-123 states that agencies need to plan for how the requirements of OMB Circular A-123 will be implemented throughout the agency and develop a written strategy to ensure that appropriate action is taken throughout the year to meet the objectives of FMFIA. OMB Circular A-123 states that the absence of such a strategy may itself be a serious internal control deficiency.

As it is apparent through the findings in this report, there are significant weaknesses in SBA's internal control assessment process. At the time of our exit conference, OCFO officials stated that they had designed a new group within their office to handle internal control matters and were considering implementation of a new internal control framework into the Agency. Until such time that a new framework is developed and implemented, appropriate internal controls may not be in place to ensure the effectiveness and efficiency of the Agency's operations and compliance with FMFIA at this point in time. Therefore, SBA should consider reporting a related material weakness in the Administrator's FY 2004 internal control assurance statement.

**Recommendation:**

We recommend that the Chief Financial Officer:

- 6A. Report the deficiencies related to the internal control assessment and FMFIA reporting process identified by the OIG as a material weakness in the annual assurance statement that is released in SBA's Performance and Accountability Report for FY 2004, unless all recommendations included in this report are addressed before that time.

**SBA Management's Response:**

OCFO disagreed with finding 6. They believe that based on the additional information and clarification provided in their response, the current issues existing within the internal control process do not rise to the level of a material weakness.

**OIG's Evaluation of Management's Response:**

We recognize the accomplishments that OCFO has made and hope that as a result of this audit, improvements will continue to be made. However, if the recommendations stated in this report are not addressed by the time the Administrator's annual assurance statement for FY 2004 is published, we believe that the Agency should consider reporting a related material weakness. Of particular concern is the Agency's lack of adequate written policies and procedures regarding internal control assessment and reporting according to FMFIA.



These findings included in this report are the conclusions of the Office of Inspector General's Auditing Division. **The findings and recommendations are subject to review, management decision, and corrective action by your office in accordance with existing Agency procedures for audit follow-up and resolution.**

Please provide us your management decision for each recommendation within 30 days. Your management decision should be recorded on the attached SBA Forms 1824, "Recommendations 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-[FOIA Ex. 2].

Attachments



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

Redacted for FOIA

**DATE:** July 13, 2004

**TO:** Robert G. Seabrooks  
Assistant Inspector General for Auditing

**FROM:** Thomas A. Dumaresq *FOIA Ex. 6*  
Chief Financial Officer

**SUBJECT:** Audit of SBA's Process for Complying with the Federal Manager's Financial Integrity Act Reporting Requirements

The draft audit report of June 2, 2004 provides recommendations for improving SBA's internal controls system. This memo is to provide you with the SBA's comments for your consideration in the final audit report.

Generally, we are in agreement that improved communication and training throughout the Agency will improve the internal control process. CFO management remains committed to improving internal controls and we are fully supported by senior Agency management in this effort. We believe that a robust internal control system is an essential component of sound financial management and we believe that your recommendations will help us as we continue to improve in this arena. We are concerned, however, that the report focuses on only a small part of the internal control process in rendering the general opinion that we are close to a material weakness in this area.

Over the past two years SBA has implemented a robust lender monitoring system that is specifically designed to identify, assess, and mitigate risk in our loan portfolio. This is an extraordinarily important element in our current internal control process and it was not considered in the IG review. We have also made very significant progress toward the integration of action on GAO and IG audit recommendations, including the top ten management challenges, into the daily operation of the Agency. It should be noted that the Mercatus Center at George Mason University cited SBA for a government-wide best practice in this area. We have also fully integrated that Agency scorecard into the operation of every program and support office at SBA. Through this process, goals are set, risks are assessed, mitigation strategies are developed and implemented, and progress toward each Agency objective is tracked by senior management. Finally, a comprehensive, new internal control process has been developed for the subsidy rate modeling process, to help mitigate the risk in this area.

These processes and procedures do not appear to have been considered during the course of this review. Specific comments regarding the findings in the report follow:

**Finding 1: SBA Needs to Strengthen its Process for Assessing and Reporting on the Agency's Internal Controls**

Although the first sentence of this finding states otherwise, the draft report actually confirms that there is a process in place in compliance with FMFIA which includes information on the web site, the checklist, procedural notices, the agency scorecard, OCFO staff, etc. The fact that

interviewed managers were not fully aware of this process would be more accurately defined as a communication issue. The first sentence should be changed to say, "The process for ensuring SBA's compliance with FMFIA's annual internal control assessment and reporting requirements needs to be communicated more effectively throughout the Agency."

The finding that 29 managers were required to submit assertion letters is inaccurate. The notice requesting assertion letters was emailed to 29 managers and supervisors but the intent was to receive assertion letters at the ADA level. For example, as stated in the Procedural Notice it was not required that both the ADA and Deputy ADA in the same office submit separate assertion letters:

"Last year many of you elected to have your lower level managers complete assertion letters and forward them to you for your coordination, conclusion, and summarization. Having your lower level managers complete the assertion letters results in a more effective evaluation of systems of management control. Whenever possible, the assessment of control should be done at the lowest possible level for an accurate assessment and accountability."

Additionally, this finding states that during FY 2002 the OFO did not review the letters of assertion submitted by the field and it did not prepare a summary. These assertions are correct. However, we believe that the finding should also reflect the fact that since no summary was provided, the OCFO reviewed all the assertion letters from the district directors, along with all the other assertion letters, before the draft assurance letter was prepared. If this information is not included a reader could conclude that the letters were not reviewed at all.

In FY 2003, the OFO did review and summarize the assertion letters from the district offices. It is also correct that the OFO did not provide the written summarization to the OCFO until after the draft assurance statement had been submitted for review by the OCFO. However, previous to circulating the draft assurance statement the OFO had verbally assured us that none of the letters of assertion mentioned any material weaknesses. The OCFO received copies of the letters and reviewed them prior to circulating the draft assurance statement.

This finding also includes a recommendation to include FMFIA related job performance standards in its performance appraisal system for applicable Agency managers and OCFO officials. Although, the performance standards do not specifically mention FMFIA, it is covered by the language that refers to internal controls in the Personal Business Commitment Plan (PBC) for Supervisors, Managers and Senior Executive Service under Leadership's element rating:

"Executes the work of the organization in a manner that reflects agency, priorities, policies and strategies.  
Maintains financial and program integrity by assuring objectives, costs, and program implementation comply with applicable laws, regulations and polices.  
Establishes systems to effectively safeguard resources against waste, loss, theft and unauthorized use or misappropriation.  
Uses monitoring/reviewing procedures that ensure outputs are of good quality and timely, and ensures appropriate changes are executed after review of outputs."

Instead of modifying the current PBCs, a similar result could be achieved by the training already suggested by the OIG. Consequently we propose that this recommendation should be eliminated, and the focus be placed on the need for training.

**Finding 2: SBA Has Not Developed Sufficient Policies and Procedures for the Agency’s Internal Control Assessment Process**

While we agree that the SOP needs to be updated, the information under this finding which is cited as coming from an “OCFO Representative” and “OCFO officials” does not portray the policy of the CFO or the situation accurately. There has been no “loss of motivation” nor is it fair to say that we “have to devise a plan of action regarding internal control implementation” because the Agency already has an active internal control program. The SOP has been delayed by a number of factors including: the reorganization of the office of the CFO, the passage of the Sarbanes/Oxley Bill, and the incorporation of comments from the Office of General Counsel.

Over the past year, as part of our overall plan to upgrade the internal control process, the office of the CFO was reorganized to improve the Agency’s capabilities both in the production of the PAR and the development and implementation of internal controls. These activities have already produced positive results. As noted earlier, the Mercatus Center at George Mason University cited our linkage of GAO and IG recommendations to performance results in the PAR as a Government-wide best practice.

It should be noted that the new SOP will be in final clearance and we anticipate issuance over the next 60 to 90 days. Over the same time period we will be issuing more detailed procedural and informational notices and providing management training to managers throughout the Agency.

We recommend that this finding be modified by eliminating paragraphs 3 and 4 on page 8 and modifying paragraph 2 to indicate that the new SOP is now in final clearance.

On page 9, we believe the draft report should be modified to indicate that the definition of “material weakness” used by the Agency is identical to the definition in OMB Circular A-123 and consistent with FMFIA. We do not, however, disagree that more detailed information on material weaknesses would be beneficial.

**Finding 3: SBA is not Performing Complete Risk Assessments in Accordance with Applicable Requirements.**

We agree that the internal control checklist needs to be actively maintained, and that internal control guidance should include information about risk assessment. Again, we believe that the Agency has focused and made substantial progress in the area that may represent the largest possibility of risk through the implementation of the Loan Monitoring System.

**Finding 4: OCFO Should Take an Active Role in Monitoring the FMFIA Process**

The summary of this finding states that OCFO did not follow up with management when they did not provide their requested assertion letter by the due date. We recognize that the letters of assertion were not submitted timely. However, when no response was received in response to the Procedural Notice telephone calls were made to AAs and ADAs, and for district directors contact was made with OFO to ask them to follow up with the non-responding district directors.

This finding also states that OCFO did not ensure that all required program offices provided assertion letters. Please see our comments under Finding 1 in regard to “Required Oversight and Program Managers Did Not Provide Assertion Letters”



Additionally, if the information provided in the Procedural Notice and in the website (whose link was provided in the Notice) was not clear, the Notice gave instructions to call the CFO. The Procedural Notice stated: "I [*Thomas Dumaresq*] will be glad to answer any questions you may have, or provide any additional information that you may need. Thanks for your support on this requirement." Non-respondents had an additional opportunity to ask questions and clarify information when they were contacted in regard to the missing letter of assertion.

The result of your audit seems to point to the need for additional training of the managers responsible for submitting the letters of assertion. It is the intention of the OCFO that this year besides sending a Procedural Notice, we will organize conference calls by region to reinforce the message of the Notice and provide an opportunity for the district directors to ask questions. Should any of them have questions that may be more appropriated to answer on a one-to-one basis, they will be encouraged to contact OAPA directly.

**Finding 5: SBA's FY 2002 Statement on Internal Controls Contained Inaccurate Information**

This issue relates to a problem that occurred only on the FY 2002 financial statements. Since it was corrected in FY 2003, the issue does not seem to merit a finding and recommendation on its own. It would be more appropriate to include this as evidence that Internal Control procedures need to be better communicated throughout the Agency.

**Finding 6: Material Weakness Identified in the FMFIA Assessment Process**

A number of recommendations in your draft audit report are for the Office of the CFO to coordinate with other SBA offices on processes to improve internal controls. I recommend that the final audit report be distributed to these offices to facilitate the OCFO's coordination.

Based on the additional information and clarification that we are providing in this response, we believe that currently existing issues with the internal control process do not rise to the level of material weakness, especially when considering the changes that the process has already undergone. Thank you for the opportunity to provide comments to the draft audit report. I will be glad to answer any questions that you may have on this response.



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

**DATE:** July 13, 2004

**TO:** Robert G. Seabrooks  
Assistant Inspector General for Auditing

**FROM:** Michael J. Pappas  
Associate Administrator for Field Operations

**SUBJECT:** Audit of SBA's Process for Complying with the Federal Managers' Financial Integrity Act (FMFIA) Reporting Requirements

The Office of Field Operations (OFO) provides the following response to the Office of Inspector General's (OIG) Draft Audit Report, dated June 2, 2004 referred to above.

The draft report clearly states the responsibilities of the Office Chief Financial Officer (OCFO) and OFO relative to compliance with the FMFIA. It is primarily the responsibility of the OCFO to develop and maintain internal controls within the Agency, and to gather all Headquarters and field office assertions on the status of their respective organization's internal controls. OFO, in turn, is responsible for collecting the letters of assertion from each of the Regional and District Offices in the field. We also have the responsibility of reviewing the documents, consolidating the responses, and providing our own assertion statement to OCFO. Considering this order of responsibility, the draft audit in several instances is written in reverse order. On all occasions where both offices are referenced together the OCFO should be mentioned before OFO so as to not mislead the reader.

We have noted your concerns over how the procedure was handled historically, however OIG is quick to point out that significant improvements were incorporated into the process in submission of the FY2003 OFO Assurance Letter. OFO realized the need for a higher level of oversight and review in the process over field submissions. As a result in FY2003 OFO enhanced the process. The process for Regional and District Assertion Letter collection was done in a highly collaborative OCFO/OFO effort. In FY2003, OCFO made the initial official notification to the field offices, and field offices were instructed to forward their responses to OFO. OFO collected, logged, and through subsequent periodic follow up ensured all responses were received in a timely fashion. OFO reviewed all assertion letters received for material weaknesses and vulnerabilities. This review was facilitated by entering all information into an electronic spreadsheet. The compiled data was thoroughly reviewed and analyzed by an OFO representative. It was on the basis of this review that OFO confidently issued its consolidated FY2003 assertion to the OCFO.

The report notes one recommendation requiring our response. Your office recommends that the Office of Field Operations work with the Chief Financial Officer to inform all Regional Administrators and District Directors about FMFIA and their responsibilities regarding FMFIA. OFO agrees and accepts this recommendation; in fact, OFO will participate in the writing of the informational notice to all offices, as we continue to closely collaborate with OCFO on this process as we have in the past.

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