



Highlights of [GAO-03-676T](#), a testimony before the Subcommittee on Government Efficiency and Financial Management, Government Reform Committee, House of Representatives

SMALL BUSINESS ADMINISTRATION

Loan Accounting and Other Financial Management Issues Impair Accountability

Why GAO Did This Study

Recently, the Small Business Administration's (SBA) auditors withdrew their unqualified audit opinions on SBA's fiscal year 2000 and 2001 financial statements and issued disclaimers of opinion. The auditors also issued a disclaimer of opinion on SBA's fiscal year 2002 financial statements. This turn of events was primarily due to flaws in the way SBA accounted for its loan sales and for the remaining portfolio. There were also several other issues affecting SBA's fiscal year 2002 audit, including key internal control weaknesses and systems that did not substantially comply with the Federal Financial Management Improvement Act. The information GAO presents in this testimony, which is discussed in greater detail in our January 2003 report, *Small Business Administration: Accounting Anomalies and Limited Operational Data Make Results of Loan Sales Uncertain* (GAO-03-87), is intended to assist Congress in assessing the current status of financial accountability at SBA.

What GAO Recommends

GAO is not making new recommendations in this testimony, but in a past report has made specific recommendations aimed at addressing the deficiencies in the accounting for loan asset sales and the remaining portfolio.

www.gao.gov/cgi-bin/getrpt?GAO-03-676T.

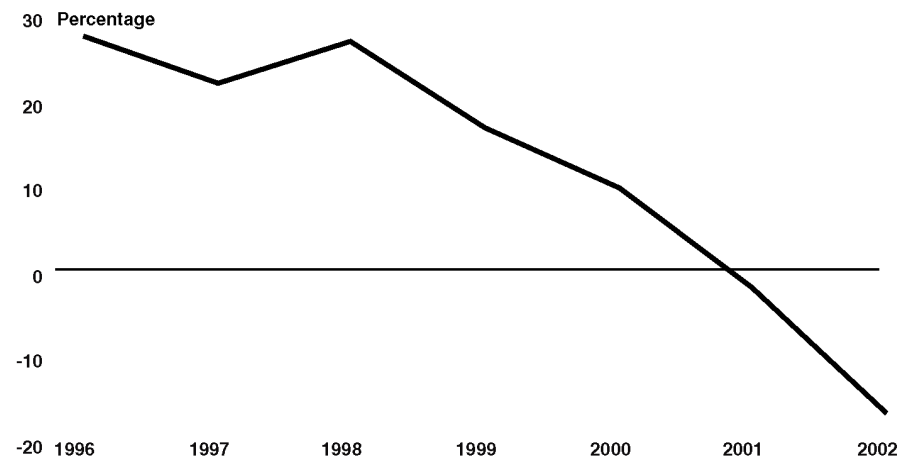
To view the full testimony, click on the link above.
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What GAO Found

Since August 1999, SBA held seven loan asset sales, disposing of a total of \$5.8 billion in disaster assistance and business loans. Our review of the budgeting and accounting for the first five loan sales found errors that could significantly affect the reported results in SBA's budget and financial statements. We found that SBA (1) incorrectly calculated losses on loan sales reported in the footnotes to its financial statements, (2) did not appropriately consider the effect of loan sales on its estimates of the cost of the remaining portfolio, which could significantly affect its budget and financial statement reporting, and (3) had significant unexplained declines in its subsidy allowance for the disaster loan program. As shown in the figure, the subsidy allowance eventually declined to a negative balance, which indicated that SBA expected profits on its subsidized disaster loans.

Despite these errors and uncertainties, SBA's auditor gave unqualified audit opinions on SBA's fiscal year 2000 and 2001 financial statements. We discussed these issues with SBA's auditors, who have since reassessed the unusual balance in the subsidy allowance account and withdrawn their unqualified audit opinions on the fiscal year 2000 and 2001 financial statements. The agency's inability to properly account for its loans sold and not sold, combined with several other financial management issues, led the auditors to issue a disclaimer of opinion on SBA's fiscal year 2002 financial statements. Until SBA corrects its financial management deficiencies, the agency's financial accounting and budgetary reporting will be unreliable. Based on recent discussions with SBA officials, we understand that they are making progress in identifying the sources of the loan accounting problems and in determining corrective actions.

SBA Disaster Loans Subsidy Allowance



Subsidy allowance as a percentage of disaster loans outstanding

Source: GAO.

Note: Analysis based on SBA data.