

**AUDIT OF SBA'S LOAN
APPLICATION TRACKING SYSTEM**

AUDIT REPORT NUMBER 4-18

APRIL 5, 2004

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

AUDIT REPORT
Issue Date: April 5, 2004
Number: 4-18

To: Stephen D. Galvan
Chief Operating Officer
Chief Information Officer

Ronald E. Bew
Office of Capital Access
Associate Deputy Administrator

Michael E. Pappas
Associate Administrator for Field Operations

Thomas A. Dumaresq
Chief Financial Officer

From: Robert G. Seabrooks (FOIA Ex. 6)
Assistant Inspector General for Audit

Subject: Audit of SBA's Loan Application Tracking System

We have completed an application controls review of the Loan Application Tracking System (LATS) using Federal Information System Controls Audit Manual (FISCAM) guidance. Application controls are the structure, policies, and procedures that apply to separate, individual application systems, such as accounts payable, inventory, payroll, grants, or loans.

BACKGROUND

SBA's Loan Application Tracking System (LATS) is a subsystem of SBA's Loan Accounting System (LAS). LAS is SBA's major application for tracking and accounting for SBA loan portfolio activity. LATS was internally designed over 20 years ago using the computer programming language COMmon Business Oriented Language (COBOL). LATS supports LAS by providing a data entry system for SBA's loan application tracking process.

Upon receipt of SBA 7(a) and 504 loan applications at agency field offices, SBA loan personnel enter necessary loan information into LATS for tracking and approval purposes. Key functions of LATS are the establishment of a loan application record and generation of a loan number upon loan approval. This loan number uniquely identifies the SBA loan throughout its life. After loan approval, LATS information is transmitted to LAS.

OBJECTIVES, SCOPE AND METHODOLOGY

The objective of this audit was to determine whether SBA LATS financial system application controls were adequate to ensure the integrity and confidentiality of system data. Specifically, we assessed the adequacy of SBA's LATS application controls in the following areas:

- Authorization Controls
- Completeness Controls
- Accuracy Controls
- Controls over integrity of processing and data files

To accomplish these objectives we evaluated and tested the effectiveness of the LATS application controls by observing the controls in operation at the SBA Washington District Office and SBA Headquarters offices, examining related documentation and discussing the controls with knowledgeable personnel and system users. We followed FISCAM guidance to conduct our review. Additionally, we reviewed the FISCAM reports completed by Cotton & Company LLP, for FY's 2000, 2001 and 2002. Fieldwork was performed at SBA's Central Office in Washington, DC, from June 2003 to August 2003. Our audit was conducted in accordance with generally accepted Government Auditing Standards.

AUDIT RESULTS

SBA has generally integrated adequate application controls in the design and operation of LATS. [FOIA Ex. 2 & 5]. Additionally, we determined that the ownership of SBA's LAS is not adequately represented by responsible SBA offices operating the system, and that software changes to both LATS and LAS could be better coordinated by establishing a Configuration Control Board (CCB).

Finding 1: Computer Desktop Access to the LATS Transaction Screens is not Secure

[FOIA Ex. 2 & 5]

Chapter 3 of SBA Standard Operating Procedure (SOP) 90-47 – Automated Information Systems Security Policies states that passwords must be used to authenticate account users. Additionally, Section AN-2.1 of the GAO FISCAM states that financial

information system operators should be required to use a unique password and identification code before being granted access to a system.

[FOIA Ex. 2 & 5]

The Office of Financial Assistance (OFA) owned and operated Electronic Transfer (E-tran) System is capable of replacing LATS in SBA's LAS. The E-tran Gateway is part of SBA's E-loan initiative to improve back-office loan functions impacting customer service. E-tran is currently in operation under an OFA sponsored pilot program with selected lenders submitting SBA Express guaranty loan requests electronically. E-tran offers improved security controls over LATS by implementing 128-bit encryption for all file transfers. Additionally, E-tran authenticates users through unique user ID and password controls.

Recommendation: We recommend that the Chief Operating Officer in conjunction with the Office of Capital Access, the Office of the Chief Information Officer and the Assistant Administrator for Field Operations:

- 1A. Implement an interim security control to prevent unauthorized access to LATS, or
- 1B. Replace LATS with E-tran for field office utilization in the submission of SBA loans after the certification and accreditation of the E-tran system has been completed.

Management Response:

The Chief Operating Officer / Chief Information Officer and Chief Financial Officer agreed with recommendation 1B and stated that they will coordinate with the Associate Deputy Administrator for Capital Access and the Assistant Administrator for Field Operations to replace LATS with E-tran for all loans processed outside the SBA district offices. SBA's complete response is included in Attachment 1.

Assessment of Management Response:

We modified our recommendation and addressed it to the Chief Operating Officer since he responded to the audit report as head of SBA operations. SBA comments are generally responsive to the audit recommendation. However, SBA officials need to clarify their response for District Offices and how loans will be more securely entered into the Loan Accounting System via the District Offices. Such clarification will be addressed during the audit follow-up process.

Finding 2: Ownership of the Loan Accounting System is not Appropriately Assigned

Ownership of LAS does not accurately reflect the offices which actually own the system. SBA security documentation identified that SBA's Chief Financial Officer owns and has overall responsibility for LAS. This occurred because ownership of LAS was inappropriately designated to the Chief Financial Officer in March of 2001. As a result, operational units within SBA including the Office of Capital Access, Office of Field Operations, Office of Disaster Assistance and the Office of Chief Information Officer do not currently have a formal direct stake in the operations, risks and capabilities of LAS. Since responsibilities have not been appropriately designated, coordination between SBA offices for changes to the LAS environment is therefore, not effectively administered.

OMB Circular A-130, Appendix 3, Section B.3.4. requires that for major applications, a management official shall provide written authorization for use after confirming that its security plan as implemented adequately protects the application. Management authorization implies accepting the risk of each system used by the application. Additionally, SBA's System Development Methodology (SDM) requires the establishment of a Change Control Board (CCB) for all new application projects.

A computer system CCB identifies the software programming baseline. The CCB is responsible for identifying proposed changes to the system and the priority for making those changes to system computer programs. The CCB is also responsible for testing and approving software changes made to the system before those changes are implemented. The SDM states that CCB members should be comprised of program officials, system users, and all other organizational areas with a direct interest in the system. A CCB should be implemented for LAS to facilitate change coordination and develop long-term strategies for modernization.

SBA's SDM recognizes the need for more than one owner by mandating a configuration control board for all system owners. We believe that ownership should be designated to all relevant SBA offices to ensure required system functionality and support of owner interests.

Recommendations:

- 2A. We recommend that the Chief Information Officer identify and require all SBA program offices with partial ownership of LAS and its subsystems to properly accredit or authorize the LAS for production for the next system accreditation.
- 2B. We recommend that the Chief Information Officer, in coordination with program officials from the Office of Chief Financial Officer, Office of Capital Access, Office of Field Operations and Office of Disaster Assistance, establish a Change Control Board for SBA's LAS.

Management Response:

The Chief Operating Officer / Chief Information Officer and Chief Financial Officer agreed with recommendations 2A and 2B except noted that the Chief Information Officer, not the Chief Financial Officer should establish a Configuration Control Board (CCB) for SBA's Loan Accounting System.

Assessment of Management Response:

We agreed with SBA's request and amended our recommendation accordingly. SBA Management's comments are responsive to recommendations 2A and 2B.

* * *

The findings included in this report are the conclusions of the Auditing Division based upon the auditors' review of application controls for the Loan Application Tracking System (LATS). 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.

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Should you or your staff have any questions, please contact Jeffrey R. Brindle, Director, Information Technology and Financial Management Group, at (202) 205-[FOIA Ex. 6].

Attachments



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

Date: March 30, 2004

To: Robert Seabrooks, AIG for Auditing

From: Stephen Galvan, COO/CIO [FOIA Ex. 6]
Thomas Dumaresq, CFO [FOIA Ex. 6]

Subject: Audit of SBA's Loan Application Tracking System

SBA's Loan Application Tracking System (LATS) is a subsystem of SBA's Loan Accounting System (LAS). Based on a recent audit of LATS, the OIG has determined that SBA has generally integrated adequate application controls in the design and operation of LATS. However, the OIG highlighted two problems: (1) [FOIA Ex. 2 & 5] and (2) Ownership of LAS is not adequately represented by responsible SBA offices operating the system and that a Configuration Control Board (CCB) should be established for SBA's LAS.

OIG Recommendations:

- 1A. Implement an interim security control to prevent unauthorized access to LATS, OR
- 1B. Replace LATS with E-tran for field office use in the submission of SBA loans after the certification and accreditation of the E-tran system has been completed.
- 2A. Recommend that the CIO identify and require all SBA program offices with partial ownership of LAS and its subsystems to properly accredit or authorize the LAS for production for the next system accreditation.
- 2B. Recommend that the CFO, in coordination with program officials from the OCIO, OCA, OFO, and ODA establish a Change Control Board (CCB) for SBA's LAS.

SBA Responses:

We agree with 1B for all loans processed outside the SBA district offices and will work with the ADA for Capital Access and the Assistant Administrator for Field Operations to replace LATs with E-tran when appropriate.

We agree with both 2A and 2B, with the modification that the CIO, not the CFO (as suggested by the OIG audit), should establish a Configuration Control Board (CCB) for SBA's LAS.

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