



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

**ADVISORY MEMORANDUM
REPORT**

Issue Date: December 2, 2004

Number: 5-07

To: Thomas A. Dumaresq
Chief Financial Officer

/S/ original signed

From: Robert G. Seabrooks
Assistant Inspector General for Auditing

Subject: Agreed-upon Procedures Report for on the Closing Package Intergovernmental
Activity and Balances

Attached is Cotton & Company LLP's agreed-upon procedures report for verification of SBA's Federal Intragovernmental Activity and Balances data. Cotton & Company's related findings resulting from these procedures are explained in further detail in their report.

This report is intended solely for the information and use of FMS, GAO, and OMB and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Should you or your staff have any questions, please contact Jeff Brindle, Director, Information Technology and Financial Management Group at (202) 205- FOIA Ex. 2.

Attachment

**ADVISORY MEMORANDUM REPORT
ON SBA'S FEDERAL INTRAGOVERNMENTAL
ACTIVITY AND BALANCES DATA**

ADVISORY MEMORANDUM REPORT NO: 5-07

DECEMBER 2, 2004

This report may contain proprietary information subject to the provisions of 18 USC 1905 and must not be released to the public or another agency without permission of the Office of the Inspector General.

COTTON & COMPANY LLP

auditors • advisors

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLICATION OF AGREED-UPON PROCEDURES

December 2, 2004

Inspector General
US Small Business Administration

We performed the procedures described in the attachment, which were agreed to by the Department of the Treasury's Financial Management Service (FMS), the U. S. Government Accountability Office (GAO), and the Office of Management and Budget (OMB) as stated in the FMS *Agency Reporting Requirements for the Financial Report of the United States Government* guidance, solely to assist FMS in the preparation of, and GAO in the audit of, the consolidated financial statements of the U.S. Government as of and for the year ended September 30, 2004. Management of the Small Business Administration (SBA) is responsible for SBA's principal financial statements and related intragovernmental data and for complying with FMS criteria over intragovernmental transactions relating to such principal financial statements as of and for the year ended September 30, 2004.

We conducted this agreed-upon procedures engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of FMS, GAO and OMB. Consequently, we make no representations regarding the sufficiency of the procedures described in the attachment, either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not perform an audit of the matters addressed herein, the objective of which would be the expression of an opinion on such information. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of FMS, GAO, OMB and SBA and is not intended to be, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Very truly yours,
Cotton & Company LLP

FOIA Ex. 6

Charles Hayward, CPA


established 1981

**Attachment to Agreed-Upon Procedures Report on
Closing Package Intragovernmental Activity and Balances**

Procedure 1

Obtain all Closing Package trading partner data for intragovernmental activity/balances supporting the Closing Package Reclassified Balance Sheet's Federal Assets and Liabilities, Reclassified Statement of Net Cost's Federal Gross Cost and Federal Earned Revenue, and Reclassified Statement of Changes in Net Position's Federal Nonexchange Revenue and Budgetary and Other Financing Sources.

Findings: Obtained the following RSI schedules:

“FYE 2004 Intragovernmental Closing Package Activity Detail Report by Trading Partner” for Agency 73 Small Business Administration, Intragovernmental Reporting and Analysis System, FMS, GFRS FY 04, Updated 11/19/2004.

“4th Quarter Intragovernmental Activity Detail Report by Trading Partner for FY 2004”, Intragovernmental Reporting and Analysis System, FMS, GFRS FY 04, Updated 11/19/2004.

“4th Quarter Intragovernmental Activity Summary Report by Trading Partner for FY 2004”, Intragovernmental Reporting and Analysis System, FMS, GFRS FY 04, Updated 11/19/2004.

“4th Quarter Intragovernmental Reciprocal Category Detail Report for FY 2004 for Agency 73 Small Business Administration”, Intragovernmental Reporting and Analysis System, FMS, GFRS FY 04, Updated 11/19/2004.

“4th Quarter Intragovernmental Reciprocal Category Summary Report for FY 2004 for Agency 73 Small Business Administration”, Intragovernmental Reporting and Analysis System, FMS, GFRS FY 04, Updated 11/19/2004.

“Closing Package vs. 4th Quarter Comparative Data for FY 2004”, Intragovernmental Reporting and Analysis System, FMS, GFRS FY 04, Updated 11/19/2004.

The RSI schedules/reports were provided electronically by Rory Berges, of the Denver Finance Center, on Nov. 30, 2004. The Closing Package report originated in the Intragovernmental Reporting and Analysis System and was generated by information submitted by SBA as part of its Government-wide Financial Reporting System entries.

Procedure 2

a. Trace the intragovernmental transactions Closing Package trading partner data by Federal line item totals and/or trading partner activity/balances to the agency general ledger and the audited financial statements.

b. Identify any differences.

Findings:

a. We obtained Closing Package Intragovernmental RSI schedules in the form of the “FYE 2004 Intragovernmental Closing Package Activity Detail Report by Trading Partner” for Agency 73 Small Business Administration. This report was provided electronically by Rory Berges, of the Denver Finance Center, on Nov. 30, 2004. The Closing Package report originated in the Intragovernmental Reporting and Analysis System and was generated by information submitted by SBA as part of its Government-wide Financial Reporting System entries.

We used SBA's final trial balance (Run Date 11-9-2004) (TB) to represent the agency's combined general ledger (CGL) and its audited financial statements. (Previous test work tied SBA's 9-30-04 Financial Statements and Notes (Run Date 11-10-2004) to the TB and the TB to FRIS/CGL.) To trace individual trading partner activity back to the TB, we pivoted the TB for appropriate US SGL accounts (which represented the intragovernmental reciprocal categories) and Agency Location Codes (ALC) (the first two digits of which represented SBA's trading partners).

b. 29 different trading partners were identified in the Closing Package report. Of those, 19 reflected amounts that agreed (with rounding differences) to the amounts recorded in the trial balance. However, the following 19 trading partners each had different reciprocal categories in the Closing Package report than in the trial balance:

Trading Partner	Reciprocal Category	Closing Package Amount	Trial Balance Amount	Difference
12	22	0.00	0.00	0.00
	23	0.00	558,078.00	(558,078.00)
	24	0.00	1,018,760.00	(1,018,760.00)
	29	1,577,000.00	0.00	1,577,000.00
12 Total		1,577,000.00	1,576,838.00	162.00
13	22	0.00	0.00	0.00
	23	0.00	0.00	0.00
	24	0.00	908,713.00	(908,713.00)
	29	909,000.00	0.00	909,000.00
13 Total		909,000.00	908,713.00	287.00
14	22	0.00	0.00	0.00
	23	0.00	0.00	0.00
	24	0.00	669,167.00	(669,167.00)
	29	670,000.00	0.00	670,000.00
14 Total		670,000.00	669,167.00	833.00
15	22	0.00	0.00	0.00
	23	0.00	28,107.00	(28,107.00)
	24	0.00	121,770.00	(121,770.00)
	29	150,000.00	0.00	150,000.00
15 Total		150,000.00	149,877.00	123.00
18	24	0.00	1,187,381.00	(1,187,381.00)
	29	1,187,000.00	0.00	1,187,000.00
18 Total		1,187,000.00	1,187,381.00	(381.00)
19	22	0.00	0.00	0.00
	24	0.00	24,732.00	(24,732.00)
	29	24,000.00	0.00	24,000.00
19 Total		24,000.00	24,732.00	(732.00)
20	17	0.00	8,602,275,465.00	(8,602,275,465.00)
	22	0.00	1,574,694.00	(1,574,694.00)
	23	0.00	148,822.00	(148,822.00)
	24	0.00	1,090,588.00	(1,090,588.00)
	29	305,844,000.00	0.00	305,844,000.00
	01	8,603,974,000	0.00	8,603,974,000.00
	02	0.00	1,699,673.00	(1,699,673.00)
	05	516,548,000.00	818,338,200.00	(301,790,200.00)
	06	0.00	1,239,191.00	(1,239,191.00)

		6,366,900.00	9,263,680.00	(632,000)
36	23	0.00	322,252.00	(322,252.00)
	24	0.00	40,068.00	(40,068.00)
	29	362,000.00	0.00	362,000.00
36 Total		362,000.00	362,320.00	(320.00)
47	22	0.00	0.00	0.00
	23	0.00	319,867.00	(319,867.00)
	24	0.00	63,328,028.00	(63,328,028.00)
	29	63,648,000.00	0.00	63,648,000.00
47 Total		63,648,000.00	63,647,895.00	105.00
49	22	0.00	0.00	0.00
	24	0.00	1,050.00	(1,050.00)
	29	1,000.00	0.00	1,000.00
49 Total		1,000.00	1,050.00	(50.00)
60	24	0.00	10,000.00	(10,000.00)
	29	10,000.00	0.00	10,000.00
60 Total		10,000.00	10,000.00	0.00
68	22	0.00	0.00	0.00
	23	0.00	15,072.00	(15,072.00)
	24	0.00	98,238.00	(98,238.00)
	29	113,000.00	0.00	113,000.00
68 Total		113,000.00	113,310.00	(310.00)
69	22	0.00	0.00	0.00
	23	0.00	6,265.00	(6,265.00)
	24	0.00	890,678.00	(890,678.00)
	29	897,000.00	0.00	897,000.00
69 Total		897,000.00	896,943.00	57.00
72	22	0.00	0.00	0.00
	23	0.00	31,092.00	(31,092.00)
	24	0.00	182,604.00	(182,604.00)
	29	214,000.00	0.00	214,000.00
72 Total		214,000.00	213,696.00	304.00
75	24	0.00	1,704,146.00	(1,704,146.00)
	29	1,704,000.00	0.00	1,704,000.00
75 Total		1,704,000.00	1,704,146.00	(146.00)
80	23	0.00	43,785.00	(43,785.00)
	24	0.00	0.00	0.00
	29	44,000.00	0.00	44,000.00
80 Total		44,000.00	43,785.00	215.00
86	23	0.00	150,000.00	(150,000.00)
	24	0.00	4,289.00	(4,289.00)
	29	154,000.00	0.00	154,000.00
86 Total		154,000.00	154,289.00	(289.00)
89	22	0.00	0.00	0.00
	23	0.00	163,230.00	(163,230.00)
	24	0.00	0.00	0.00
	29	163,000.00	0.00	163,000.00
89 Total		163,000.00	163,230.00	(230.00)

91	23	0.00	0.00	0.00
	24	0.00	9,882.00	(9,882.00)
	29	10,000.00	0.00	10,000.00
91 Total		10,000.00	9,882.00	118.00

In addition, the following 7 trading partners were reported in the Closing Package at a different amount than in the trial balance:

<u>Trading Partner</u>	<u>Reciprocal Category</u>	<u>Closing Package Amount</u>	<u>Trial Balance Amount</u>	<u>Difference</u>
00	24	0.00	511,472.55	(511,472.55)
	26	0.00	0.00	0.00
	29	0.00	0.00	0.00
00 Total		0.00	511,472.55	(511,472.55)
16	21	0.00	5,487,648.00	(5,487,648.00)
	22	0.00	0.00	0.00
	24	0.00	23,334,173.00	(23,334,173.00)
	26	2,437,000.00	490,740.00	1,946,260.00
	29	7,601,000.00	0.00	7,601,000.00
16 Total		10,038,000.00	29,312,561.00	(19,274,561.00)
24	21	0.00	1,248,416.00	(1,248,416.00)
	22	0.00	0.00	0.00
	24	0.00	21,499,980.00	(21,499,980.00)
	26	33,164,000.00	34,890,031.00	(1,726,031.00)
	29	21,500,000.00	0.00	21,500,000.00
24 Total		54,664,000.00	57,638,427.00	(2,974,427.00)
78	22	0.00	0.00	0.00
	24	0.00	687,630.00	(687,630.00)
78 Total		0.00	687,630.00	(687,630.00)
78R	29	688,000.00	0.00	688,000.00
78R Total		688,000.00	0.00	688,000.00
95	22	0.00	N/A	N/A
	24	0.00	N/A	N/A
	28	0.00	N/A	N/A
	29	3,735,000.00	N/A	N/A
95 Total		3,735,000.00	0.00	3,735,000.00
99	18	(98,362,000.00)	102,740,679.00	(201,102,679.00)
	22	10,297,000.00	556,249,477.00	(545,952,477.00)
	24	0.00	37,055,566.00	(37,055,566.00)
	29	901,544,000.00	302,639,655.00	598,904,345.00
	02	0.00	10,296,273.00	(10,296,273.00)
	05	0.00	10,296,273.00	(10,296,273.00)
99 Total		813,479,000.00	1,019,277,923.00	(205,798,923.00)

Procedure 3

- a. Trace trading partner activities/balances from the intragovernmental transactions Closing Package trading partner data to the agency's supporting schedules (Agency Fourth Quarter Intragovernmental Reconciliation and CFO Representations using Closing Package data).
- b. For items where agency reporting differences exist, trace the explanations to supporting documentation and identify any discrepancies.

Findings:

- a. We obtained "Closing Package vs. 4th Quarter Comparative Data for FY 2004". This report was provided electronically by Rory Berges, of the Denver Finance Center, on Nov. 30, 2004. The report originated in the Intragovernmental Reporting and Analysis System.
- b. The total net amount of SBA's reported differences was \$204,226,599. SBA did provide an explanation for each item where reporting differences existed. However, we were unable to either corroborate or trace approximately \$203 million of that total to supporting documentation.

Procedure 4

- a. Obtain FMS' *Comparative Closing Package Explanation of Differences Report* for intragovernmental activities/balances.
 - Trace the differences between the agency and its trading partners by reciprocal category/line-item from FMS' comparative reports to explanations from agency supporting documentation.
 - Identify any inconsistencies in amounts or explanations between FMS' comparative reports and agency supporting documentation.
- b. In the event of nonreporting by trading partners, as indicated in the footer section of FMS' comparative reports, identify that the difference is due to a nonreporting partner and do not proceed further with the review of the differences.

Findings:

- a. The Trading Partner, reciprocal category (RC), and amounts reported as material differences in the "Intragovernmental Closing Package Comparative Status of Disposition Report FY 2004", traced back to explanations provided by SBA supporting documentation as reported in its "Material Differences Report: Year end FY 2004" as follows:
 - SBA correctly identified and reported its TP.
 - SBA's explanation supported the RC change from 01 to 17, thereby reconciling with the TP.
 - SBA reconciled \$8,603,974,000 of the material difference of \$8,602,000,000. The remaining balance of \$1,974,000 was not reconciled.

b. N/A

Procedure 5

- a. Identify and include copies of internal control findings related to intragovernmental activities from the financial statements audit.
- b. Identify and report auditor-proposed intragovernmental adjustments that were waived by the agency, including items cited in the management letter.

Findings:

- a. Cotton & Company reported the following finding and recommendation related to intragovernmental activities in the Independent Auditor's Report on Internal Control dated November 15, 2004:

INTRA-GOVERNMENTAL TRANSACTIONS

While SBA strengthened its process for reconciling intra-governmental activity and balances with trading partners, it was unable to reconcile a significant amount of intra-governmental activity through September 30, 2004. In some instances, SBA did not fully capture the requisite trading partner data, such as agency location code, in its accounting system. In addition, SBA's contacts with a significant trading partner, Office of Personnel Management, failed to resolve large differences noted by Treasury. Further, SBA's attempts to contact another significant trading partner, General Services Administration, were not reciprocated.

Treasury Financial Manual, 2-4700, Agency Reporting Requirements for the Financial Report of the United States Government (May 28, 2004), requires agencies to capture trading partner information in their accounting systems and fully reconcile differences with trading partners on a quarterly basis. Additionally, according to *Treasury's Federal Intragovernmental Transactions Accounting Policies Guide (September 24, 2004)*, the responsibility for reconciliation of an agency's activity and balances is with the agency regardless of the trading partner's involvement with the transaction.

Recommendation:

We recommend that the CFO strengthen internal controls to ensure that all requisite trading partner data are fully captured in SBA's accounting system, and that all trading partners are contacted quarterly to reconcile differences. In addition, we recommend that CFO seek assistance from OMB to enhance cooperation from non-responsive trading partners.

- b. There were no auditor-proposed intragovernmental adjustments that SBA waived.