

ADVISORY MEMORANDUM REPORT
ON SBA'S CLOSING PACKAGE INTRAGOVERNMENTAL
ACTIVITY AND BALANCES

ADVISORY MEMORANDUM REPORT NO: 6-06

DECEMBER 2, 2005

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.



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

ADVISORY MEMORANDUM REPORT
Issue Date: December 2, 2005
Number: 6-06

To: Thomas A. Dumaresq
Chief Financial Officer

From: */S/ original signed*
Robert G. Seabrooks
Assistant Inspector General for Auditing

Subject: Agreed-upon Procedures Report on SBA's Closing Package Intragovernmental Activity and Balances

We contracted with the independent certified public accounting firm of Cotton & Company LLP (Cotton) to perform procedures agreed-upon by the Department of Treasury's Financial Management Service (FMS), the Government Accountability Office (GAO) and the Office of Management and Budget (OMB) on the Small Business Administration's (SBA) closing package intragovernmental activity and balances. Attached is Cotton's report on the results of these procedures. Cotton identified five items as a result of these procedures, which 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.

The Office of the Chief Financial Officer (OCFO) reviewed Cotton's draft of the agree-upon procedures report and agreed with the results. The OCFO was pleased to further note that the results reflected a substantial improvement from the prior year's review.

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



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**FY 2005
INDEPENDENT ACCOUNTANT'S REPORT ON THE
APPLICATION OF AGREED-UPON PROCEDURES**

Inspector General, U.S. Small Business Administration

We have performed the procedures described in Attachment I, 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, 2005. The U.S. Small Business Administration's management is responsible for the proper accounting, presentation and reporting of its consolidated financial statements and reporting of information to FMS.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the *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 Attachment I either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our associated findings are presented in Attachment I.

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 the U.S. Small Business Administration, OMB, FMS and GAO 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.

COTTON & COMPANY I.J.P

[FOIA Ex. 6]

Charles Hayward, CPA

Alexandria, Virginia
December 2, 2005

Attachment 1
Fiscal 2005 Agreed-Upon Procedures Report for Federal Intragovernmental Activity and Balances

Agency Name	U. S. Small Business Administration (SBA)
2-Digit Agency Code	73

<p>INSTRUCTIONS: Indicate the findings upon completion of each procedure. Deliver this Inspector General (IG) Agreed-Upon Procedures Report on Closing Package Intragovernmental Activity and Balances, as well as copies of any internal control findings, to the agency's CFO, FMS, and GAO no later than December 2, 2005. (Please refer to the requirements stated in subsection 4705.75 of the Treasury Financial Manual – IG Agreed Upon Procedures for Federal Intragovernmental Activity and Balances)</p>	<p>FINDINGS:</p>								
<p>Procedure 1 Obtain all <i>Intragovernmental Closing Package Line Item</i> reports from Module 4 of Government-wide Financial Report System (GFRS) 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.</p>	<p>We completed procedure 1 without exception.</p>								
<p>Procedure 2 Compare the <i>Intragovernmental Closing Package Line Item</i> reports from Module 4 of GFRS for intragovernmental activity/balances by Federal line item totals and/or trading partner activity/balances to the agency's general ledger and the Required Supplementary Information (RSI) data from the audited financial statements. Identify any differences.</p>	<p>We found the following immaterial difference among Government-wide Financial Reporting System, Module 4; SBA's general ledger; and the <i>Required Supplementary Information Intragovernmental Assets and Liabilities</i> Schedule:</p> <table border="1" data-bbox="1246 157 1387 1102"> <thead> <tr> <th><u>GFRS Module 4</u></th> <th><u>GL</u></th> <th><u>RSI</u></th> <th><u>Difference</u></th> </tr> </thead> <tbody> <tr> <td>\$8,961,515,348.05</td> <td>\$8,961,515,348.05</td> <td>\$8,961,515,103.15</td> <td>\$244.90</td> </tr> </tbody> </table>	<u>GFRS Module 4</u>	<u>GL</u>	<u>RSI</u>	<u>Difference</u>	\$8,961,515,348.05	\$8,961,515,348.05	\$8,961,515,103.15	\$244.90
<u>GFRS Module 4</u>	<u>GL</u>	<u>RSI</u>	<u>Difference</u>						
\$8,961,515,348.05	\$8,961,515,348.05	\$8,961,515,103.15	\$244.90						

**Attachment 1
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<p>Procedure 3 Compare trading partner activity/balances from intragovernmental RSI schedules in the agency's audited financial statements to the agency's <i>Intragovernmental Closing Package vs. 4th Quarter Submission Comparative Data Report</i> and the <i>Intragovernmental Closing Package Material Differences/ Status of Disposition Certification Report</i> (Section II of the CFO Representations). For items where agency reporting differences exist, compare the explanations to supporting documentation and identify any discrepancies.</p>	<p>For the reciprocal category/trading partner amounts which were reported in SBA's intragovernmental RSI schedules, we identified the agency reporting differences and compared them to SBA's explanations along with supporting documentation. The provided explanations explain the reporting differences and there are no discrepancies between the explanations and the supporting documentation, with one exception. (\$28.3 million which was reported as trading partner 99 (Treasury General Fund) as part of the 4th quarter submission was reclassified to trading partner 20 (Department of Treasury) in the closing package.) The explanations provided by SBA do not explain why this amount was reclassified.</p> <p>The total of SBA's differences as identified by Treasury per the <i>Intragovernmental Closing Package v. 4th Quarter Submission Comparative Data Report</i> is \$10.6 million. This amount was less than 10% of SBA's total intragovernmental activity amount of \$10.8 billion, in aggregate and by reciprocal category. Consequently, SBA was not required to explain the differences on the CFO representation section I.E. SBA's response to this question should have been "No".</p> <p>SBA's intragovernmental RSI schedules do not agree to the <i>Closing Package Material Differences/Status of Disposition Certification Report</i>, because the single identified material difference occurs in a net position Federal line item and SBA was not required to present an RSI schedule for net position line items.</p>
<p>Procedures 4 On November 29, 2005, FMS will generate and distribute the <i>Intragovernmental Comparative Closing Package Explanation of Differences Report</i> for intragovernmental activity/balances to agency Inspector Generals (IGs).</p>	<p>The <i>Intragovernmental Comparative Closing Package Explanation of Differences Report</i> identifies a single material trading partner/reciprocal category difference. This amount traced to SBA's <i>Closing Package Material Differences/Status of Disposition Certification Report</i> which contains SBA's explanation for the difference. The results of our work are as follows:</p>

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Fiscal 2005 Agreed-Upon Procedures Report for Federal Intragovernmental Activity and Balances

Agency IGs/auditors will use this report to:

- (1) Compare the differences between the agency and its trading partners by reciprocal category/line-item from FMS' *Intragovernmental Comparative Closing Package Explanation of Differences Report* to explanations from the agency supporting documentation. For items where agency reporting differences exist, compare the explanations to supporting documentation and identify any discrepancies.
- (2) Identify any inconsistencies in amounts or explanations between FMS' *Intragovernmental Comparative Closing Package Explanations of Differences* reports and the agency's supporting documentation.
- (3) In the event of non-reporting by trading partners, as indicated in the footer section of FMS' *Intragovernmental Comparative Closing Package Explanations of Differences* reports, identify whether the difference is due to a non-reporting partner and do not proceed further with the review of the differences.

- (1) SBA incorrectly recorded \$662.7 million under trading partner 20 (Department of Treasury). It should have been recorded and reported under trading partner 99 (Treasury General Fund). This discrepancy was identified by Treasury and SBA subsequently corrected it.
- (2) There were no inconsistencies in the amounts or explanations between FMS' *Intragovernmental Comparative Closing Package Explanation of Differences Report* and SBA's supporting documentation.
- (3) The differences reported in the *Intragovernmental Comparative Closing Package Explanations of Differences Report* are not due to a non-reporting trading partner.

Attachment 1
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Procedure 5

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

We reported no intragovernmental internal control finding resulting from SBA's FY 2005 Financial Statement audit. Additionally, there were no auditor-proposed intragovernmental adjustments submitted to SBA. We are evaluating one or more management-letter findings corresponding with SBA's responsibility for intragovernmental activity and balances, and will report them in due course, when we submit our draft management letter to the IG and management.