



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

---

TRANSMITTAL MEMORANDUM  
Report No. 12-05

**DATE:** DECEMBER 15, 2011

**TO:** JONATHAN I. CARVER  
Chief Financial Officer

**FROM:** JOHN NEEDHAM /s/ Original Signed  
Assistant Inspector General for Auditing

**SUBJECT:** KPMG Management Letter Communicating Matters Relative to SBA's FY 2011  
Financial Statement Audit

The attached Management Letter identifies matters that were identified during the audit of the SBA's FY 2011 financial statements. The audit was performed under a contract with the Office of Inspector General and in accordance with *Generally Accepted Government Auditing Standards*; Office of Management and Budget's (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended; the Government Accountability Office (GAO)/President's Council on Integrity and Efficiency (PCIE) *Financial Audit Manual*; and GAO's *Federal Information System Controls Audit Manual*.

KPMG addressed recommendations to the Associate Administrator for Capital Access; Chief Financial Officer; Chief Information Officer; Chief Human Capital Officer; and Director for the Offices of Financial Assistance, Financial Program Operations, Portfolio Management and Financial Analysis and Modeling. We provided a draft of KPMG's report to each of these officials or their designees, who fully or substantially concurred with the findings relative to their respective areas. The officials or designees agreed to implement the recommendations or have already taken action to address the underlying conditions.

Should you have any questions, please contact Jeffrey Brindle, Director, Information Technology and Financial Management at (202) 205-7490.

Attachment



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036-3389

## MANAGEMENT LETTER

November 14, 2011

CONFIDENTIAL

Inspector General,  
and Administrator of the U.S. Small Business Administration

We have audited the consolidated financial statements of the U.S. Small Business Administration (SBA), as of September 30, 2011 and 2010, and for the years then ended, and have issued our report thereon dated November 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. In planning and performing our fiscal year 2011 audit, we considered the SBA's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SBA's internal control. Accordingly, we do not express an opinion on the effectiveness of the SBA's internal control.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies, and are summarized in Exhibit I. The status of prior year comments is presented in Exhibit II.

In addition, we identified certain deficiencies in internal control that we consider to be a significant deficiency, and communicated them in our *Independent Auditors' Report* dated November 14, 2011.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the SBA's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This communication is intended solely for the information and use of the Office of Inspector General, OMB, the Government Accountability Office, the U.S. Congress, and SBA management, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**

U.S. SMALL BUSINESS ADMINISTRATION  
Management Letter Comments  
FY 2011

***NONCOMPLIANCE WITH THE DEBT COLLECTION IMPROVEMENT ACT OF 1996***

In our *Independent Auditors' Report* dated November 14, 2011, we reported noncompliance with the Debt Collection Improvement Act of 1996 (DCIA) in summarized form. For purposes of tracking the status of management's actions in the SBA's audit follow-up system, we provide the following detail.

Our testwork over compliance with the DCIA covered the U.S. Small Business Administration's (SBA) loans that were charged-off between April 1, 2010 and August 31, 2011. While performing our testwork, we identified the following instances of noncompliance with the DCIA:

- The SBA did not refer at least 504 delinquent Disaster Assistance program loans to the U.S. Department of Treasury (Treasury) for cross-servicing and offset at time of charge-off. The SBA sent due-process notices to some, but not all, of the obligors advising them that their indebtedness would be sent to the Treasury for collection.
- Also, the SBA did not refer more than 5,000 eligible co-borrowers and guarantors (who signed the Loan Authorization Agreement for Disaster Assistance, 504/CDC, and 7(a) loans) to the Treasury for cross-servicing and offset.

Certain charged-off loans, co-borrowers, and guarantors were not referred to the Treasury for cross-servicing and offset during the period of review due to systemic problems with the legacy mainframe system. Specifically, certain outdated system edits in the SBA's referral protocol prevented certain loans in charged-off status from being transferred to the Treasury for collection. Also, programmers in the Office of the Chief Information Officer (OCIO) modified the COBOL code (referral protocol), but did not test the program changes during the development phase prior to rolling the changes out to production.

We noted that during the fourth quarter of Fiscal Year (FY) 2011, staff in the OCIO took actions to address the weaknesses addressed as causes above. These actions include: performing some analyses of loans in charged-off status; identifying and removing a system edit from the referral protocol; and correcting errors in the COBOL code that prevented certain charged-off loans, co-borrowers, and guarantors from being referred to the Treasury.

Because these loans were not timely referred to the Treasury for servicing, the SBA is not compliant with the DCIA. Also, the lack of a formal change management process poses the risk of uncontrolled and unauthorized system changes being made which will compromise the integrity of the data maintained and transmitted to the Treasury. According to staff in the OCIO, these loans total, at a minimum, \$226 million in outstanding unpaid principal balance. In addition, the likelihood of the Treasury's full recovery or collection on this debt decreases as the debt ages. Finally, the SBA's reporting of debts on the Report of Receivables Due for the Public (direct and insured loans) and the Report on Guaranteed Loan (guaranteed loans) may be understated or misleading.

U.S. SMALL BUSINESS ADMINISTRATION  
Management Letter Comments  
FY 2011

We recommend the Chief Information Officer:

1. Issue reminders to staff that all program changes follow the SBA's change management process to include policies and/or procedures for documentation retention such as testing evidence and change approvals prior to development and implementation of the change to production.
2. Continue to conduct in-depth analyses of the existing referral protocol to identify and correct program coding that is preventing charged-off loans from being automatically transferred to the Treasury.
3. Review and update the SBA's referral protocol to ensure that qualifying loans with executed due process notices are automatically transferred to the Treasury.
4. Continue to perform an analysis of loans charged-off in prior years to identify and correct the issues noted above.
5. Continue to coordinate with staff in the Treasury's Debt Management Services to develop useful reports that can be used to reconcile charged-off loans and associated borrowers, co-borrowers, and guarantors to ensure the timely collection of indebtedness on the SBA's delinquent loan inventory.

We also recommend the Office of Portfolio Management Director work with the Office of Financial Program Operations (OFPO) Director to:

6. Implement robust, quarterly monitoring reviews to identify all charged-off loans where the automatic referral did not occur.
7. Review the list of co-borrowers and guarantors who were not referred prior to the referral protocol corrections and refer individuals to the Treasury, as appropriate.

**Management's Response:**

The SBA's management concurs with the findings and recommendations.

***INADEQUATE REVIEW OF THE REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION***

The Financial Statement Workbook is an Excel workbook that is programmed to receive a data extract from the General Ledger and compile it into the four principal financial statements, footnotes, and other related disclosures. During our testwork over the SBA's Required Supplementary Stewardship Information as of June 30, 2011 presented as part of the financial statements Other Accompanying Information (OAI), we noted that the FY 2011 Stewardship Investments in Human Capital balances related to Small Business Development Centers, SCORE, Women's Business Centers, and All Other Training and Assistance Programs did not agree to the Financial Statement Workbook.

**U.S. SMALL BUSINESS ADMINISTRATION**  
Management Letter Comments  
FY 2011

The Office of the Chief Financial Officer's (OCFO) Financial Reporting Division updated the Financial Statement Workbook; however, this update was not communicated to the quality assurance or financial assurance teams subsequent to their approval and sign-off. As a result the SBA's Stewardship Investments in Human Capital balances are overstated by \$465,654, which could result in a misstatement of the overall presentation of the financial statements.

We recommend the Chief Financial Officer (CFO):

8. Reinforce the need for each team in the OCFO to sign-off on the requisite checklists once the final review of financial data is complete, as well as the need to timely coordinate and communicate subsequent changes that affect the Financial Statement Workbook and the Word version of the OAI to the other teams.
9. Develop and document policies and procedures for the Word versions of the OAI presented in the financial statements to ensure these sections are accurate and in agreement with the final version of the Financial Statement Workbook.

**Management's Response:**

The SBA's management concurs with the finding and recommendations.

***IMPROVEMENT IS NEEDED IN THE OPEN OBLIGATIONS REVIEW PROCESS***

Undelivered orders (UDO) represent the value of goods and services ordered that have not been received. If orders have been filled or are no longer needed, the SBA should deobligate any outstanding obligation balances so that funds can be used for other purposes. During our testwork of the SBA's UDO review process, we noted the following:

- As of September 30, 2011 we identified 49 of 6,841 UDO balances, recorded in Oracle totaling \$623,077, that were no longer valid because the SBA program office certified that the balances were not needed and should have been deobligated, or because the goods or services had been received.
- The OCFO does not have a current Standard Operating Procedure (SOP) that delegates specific responsibilities for closing UDOs and deobligating funds in Oracle. For example, we noted inadequate documentation, in the form of a current SOP, of communication between the Denver Finance Center (which has responsibility to ensure deobligation of UDOs in Oracle) and the Office of Planning and Budget (OPB) (which has the overall responsibility of reviewing the final UDO balance).

U.S. SMALL BUSINESS ADMINISTRATION  
Management Letter Comments  
FY 2011

The OCFO's formal policies and procedures for final closure of UDOs do not adequately specify program office responsibilities to ensure that expired UDO balances, reported by the SBA program offices, are timely closed out or deobligated in Oracle. These deficiencies increase the risk of misstated UDO balances reported in the SBA's Statement of Budgetary Resources.

We recommend the CFO enhance existing internal control over the quarterly UDO review process to include the following:

10. Develop a current SOP to include specific evaluation and timely close-out procedures for UDOs. This SOP should include the specific titles of the personnel who are delegated these responsibilities.
11. Ensure that obligated funds are promptly deobligated when those funds are no longer needed.
12. Perform an analysis to examine potential open UDOs at fiscal year end to identify UDO balances that should be closed out and deobligated (e.g., develop an aging of contracts that is reviewed by OPB at year end to determine if contracts are still valid based on the terms of contracts and program office certifications).

**Management's Response:**

The SBA's management concurs with the first condition and the recommendations. The SBA's management does not concur with the second condition as exemplified in their response below:

*"On February 8, 2011, the SBA issued a Procedural Notice to all SBA employees outlining procedures and specific responsibilities for closing UDOs and de-obligating funds in Oracle. A copy of this Procedural Notice was supplied to KPMG during the walkthrough. As demonstrated from this Procedural Notice, the periodic UDO assessment is integrated in the agency's operation and is continuously monitored by management. Both the Denver Finance Center and Office of Planning and Budget have been working together effectively to improve the UDO process each year. Evidence of this improved communication was provided to KPMG as a follow up to the initial walkthrough but has not been acknowledged in this NFR. A point of contact has been established in both offices; therefore, communication and information continues to flow. The points of contacts correspond via e-mail and/or telephone prior to the UDO scheduled review, during the review and following the review for the status of each UDO close notification. The Office of the Chief Financial Officer, which includes the Denver Finance Center and the Office of Planning and Budget, takes the role and responsibility for the periodic review, analysis and close out of UDO's very seriously. The UDO review process is included as part of the regular assigned duties of delegated staff in the Office of Planning and Budget."*

**U.S. SMALL BUSINESS ADMINISTRATION**  
Management Letter Comments  
FY 2011

**KPMG's Response:**

KPMG has read the SBA's response and has made an editorial change; other than that change, we consider our finding to be appropriate as presented. We note that the Procedural Notice mentioned above does document procedures associated with the closure of UDO's; however, we continue to recommend that a current SOP be developed to enhance controls over the closure of UDO's.

***CONTROLS NEEDED FOR VENDOR FILE MAINTENANCE***

A vendor master file is essential for an accounts payable operation. Typically, a vendor master file contains contact, tax, and contract information for each vendor. As part of our FY 2011 audit testwork, we noted that controls surrounding vendor files needs improvement. For instance, we noted that management does not have adequate procedures to periodically review their vendor files and determine which vendors should be inactive. Specifically, we noted the following:

- SBA designates vendors as "active" or "inactive" through use of the vendor status field in Oracle. Of 55,006 vendors maintained in the vendor master data, only 20,222 (37%) were designated as "active" status, while the remaining 34,784 (63%) were designated as "inactive" status. Furthermore, there were 15,441 active vendors did not have any activity (payments) over an 8 month period (from October 1<sup>st</sup> 2010 to May 31<sup>st</sup> 2011).
- Additionally, 309 vendors, 237 of those vendors being "active", had an incomplete address maintained in the vendor master data file.

These conditions exist because the OCFO has not established comprehensive procedures, written or otherwise, addressing key control areas of vendor file maintenance and monitoring. Without well established procedures and controls over the vendor master file data, errors or inappropriate use of master file data may go undetected, and excessive and inaccurate vendor master file records could lead to duplicate payments, unpaid invoices, and fraud.

We recommend the CFO:

13. Develop and implement a vendor maintenance SOP for routine vendor maintenance that includes the review, inactivation, archiving and/or purging of vendor master records at predetermined intervals. This SOP should include regular reports on activity, communication with vendors, procedures for vendor additions and deletions, and routine cleansing of old or duplicate entries.

**Management's Response:**

The SBA's management concurs with the findings and recommendations.

U.S. SMALL BUSINESS ADMINISTRATION  
Management Letter Comments  
FY 2011

***UNTIMELY FOLLOW-UP ON LENDER OVERSIGHT CORRECTIVE ACTIONS***

During our review of the SBA's Office of Lender Oversight activities for its 7(a) loan program, we found the Office of Credit Risk Management (OCRM) did not adequately follow-up with nine lenders assessed as "Less than Acceptable with Corrective Actions Required" as a result of the OCRM's risk-based, on-site reviews:

- OCRM officials did not timely follow-up with two lenders who were nonresponsive to findings reported in February 2011.
- OCRM officials did not maintain documentation to support its determination that seven lenders' corrective action plans were responsive to its recommendations or whether OCRM is monitoring these lenders' progress to remediate findings identified during the reviews.

During FY 2011, the OCRM encountered staffing issues (to include attrition) which attributed to a backlog of on-site review reports and untimely follow-up with lenders regarding findings in the on-site review reports. In June 2011, the newly appointed Acting Director of OCRM planned to hire additional staff and utilize those resources to alleviate the backlog of on-site review reports. The OCRM Acting Director also noted that the OCRM will resume its communications with lenders as the backlog is diminished. Because the operations, knowledge of prudent lending practices, and/or application of the SBA's requirements and judgment for these nine lenders is questionable, these lenders may lack the continuing ability to make and manage their portfolio which poses a financial risk to the SBA for nearly \$600 million in loans it guaranties.

We recommend the Associate Administrator for Capital Access:

14. Perform a review of the backlog to identify all open recommendations and weaknesses that were identified during the OCRM on-site, risk-based reviews.
15. Reallocate and utilize staff to prioritize the review of open recommendations and weaknesses to ensure that lenders (to include the nine noted above have submitted viable corrective action plans) have submitted viable corrective action plans. If not, consider other remedial actions to bring all lenders in compliance with the SBA's requirements.

**Management's Response:**

The SBA's management concurs with the findings and recommendations. The SBA notes that subsequent to June, 2011 OCRM hired additional staff and was successful in eliminating a backlog of 54 on-site risk-based reviews by September 27, 2011. OCRM resumed its communications with lenders regarding corrective actions required of the reviewed lenders at that point.



U.S. SMALL BUSINESS ADMINISTRATION  
Management Letter Comments  
FY 2011

***INADEQUATE CONTROLS OVER THE 1502 ERROR PROCESS***

During the FY 2010 audit we determined that a deficiency existed in Colson's 1502 reporting process for the SBA's 7(a) loan program. We reported there was no reconciliation between Colson and the SBA's error populations which caused a backlog of errors that were not timely remediated. In FY 2010, the SBA's management determined that those errors did not have a material impact on the financial statements. Specifically, Colson identified 27,924 errors in its *Lender Exception Report* dated April, 2010, while the SBA identified 48,040 errors for that same period. The lack of reconciliation between the error populations was a result of discrepancies in edit checks programmed in the systems that Colson and the SBA use to process 7(a) loan data. We discussed this deficiency with the SBA's management while conducting our FY 2011 audit procedures. Management asserted to us that Colson identified 27,684 errors in its *Lender Exception Report* dated April 2011, while the SBA identified 43,552 errors for that same period. The SBA's management agreed that corrective action to remediate this deficiency was not taken.

According to the SBA staff, the discrepancy with the error count is the result of two different sets of edit checks or "business rules" that are programmed in Colson and the SBA's systems. The SBA has attempted to work with Colson on aligning these business rules but due to conflicting priorities at Colson and the SBA, this issue has not been resolved. Because Colson's edit checks for processing 1502 loan data are not aligned with the SBA's system edits, all 1502 errors considered relevant by the SBA are not reported by Colson or subsequently corrected. Consequently, the notes receivable balance, guaranty liability, and their related disclosures in the SBA's financial statements may be misstated.

We recommend the:

16. OFA Director work with Colson to implement consistent system edit checks.
17. OFA Director and the, Office of Information Systems Support Director establish a cross-functional team to develop and implement a corrective action plan that outlines clear milestones with a time table of results that can be directly quantified by a reduction in the 1502 error rate.
18. OCFO's Office of Financial Analysis and Modeling Director perform a detailed analysis of the potential impact of the backlog of errors that were not remediated timely.

**Management's Response:**

The SBA's management concurs with the findings and recommendations.

U.S. SMALL BUSINESS ADMINISTRATION  
Management Letter Comments  
FY 2011

***INADEQUATE REVIEWS OF GUARANTY LOAN CHARGE-OFFS AND PURCHASES***

During our testwork over guaranty loan charge-offs and purchases at the National Guaranty Purchase Center (NGPC), we noted the following deficiencies related to the SBA Form 327, *Modification or Administrative Action*:

- No evidence of an approving official's review for the charge-off of loan #[FOIA ex. 4]
- No evidence of the reviewing official's review for the charge-off of loan # [FOIA ex. 4]
- No evidence of the reviewing or approving official's review for the purchase of loan #[FOIA ex. 4]

The NPGC quality assurance review process did not ensure that all required signatures and documents approving the charge-off and purchase of loan guaranty transactions were obtained prior to charge-off or purchase. Lack of adequate approval documentation to support guaranty loan charge-offs and purchases increase the risk that improper charge-offs or purchases will be made and recorded in the general ledger. Also, improper charge-offs or purchases may limit the SBA's recovery on delinquent loans from collateral or through litigation.

We recommend the OFPO Director:

19. Reinforce the importance of a thorough review of all loan actions by the SBA personnel (e.g., issuance of a memorandum, training).
20. Perform periodic (quarterly) quality assurance reviews of the loan files to ensure that appropriate personnel have signed the SBA Form 327 and all required supporting documentation is retained in the loan files.

**Management's Response:**

The SBA's management concurs with the findings and recommendations.

***MISSING LOAN DOCUMENTATION***

During our testwork over guaranty loan purchases and charge-offs at the NGPC, we noted:

- Missing Loan File

NGPC staff was unable to locate the file for loan #[FOIA ex. 4] The loan file included the *Purchase Demand Kit* and the SBA Form 327. However, upon request, the NPGC Director was able to provide replacement copies of these documents that were obtained from the lender and the

**U.S. SMALL BUSINESS ADMINISTRATION**  
 Management Letter Comments  
 FY 2011

SBA's electronic filing system. We noted that these documents did not contain original signatures.

- Lender Wrap-Up Report

For loan #[FOIA ex. 4] the NGPC staff did not obtain a *Lender Wrap-up Report* or other documentation sufficient to support the lender's liquidation activities and decisions prior to charge-off.

NGPC staff was unable to locate the loan file because all staff does not adhere to the filing system for loan files which resulted in the file being misplaced. Also, NGPC staff did not obtain a *Lender Wrap-up Report* due to the lack of an adequate quality assurance review of the loan file. Both instances resulted in noncompliance with SOP requirements. The exceptions noted above increase the risk that invalid purchase and charge-off transactions will be made. In addition, there is a risk that the SBA will not maximize its collection efforts.

We recommend the OFPO Director:

21. Reinforce, through the issuance of a memorandum, the importance of obtaining all required loan documents such as the *Lender Wrap-up Report* prior to charge-off.
22. Reinforce, through the issuance of a memorandum, the importance of retaining all substantive loan documents such as the demand kit and the SBA Form 327 for all loan files.

**Management's Response:**

The SBA's management concurs with the findings and recommendations.

***UNTIMELY POST-PURCHASE REVIEWS***

During our guaranty loan purchase testwork at the NGPC and the Little Rock Servicing Center, we noted the following untimely post-purchase reviews:

- The post-purchase review for loan #[FOIA ex. 4, 6, 7C] was completed 228 days after the loan was purchased from the secondary market.
- The post-purchase review had not yet started for loan #[FOIA ex. 4] at the time of our visit, 97 days after the purchase off the secondary market.

According to the NGPC and Little Rock Center Directors, these deficiencies occurred because the loan specialists did not timely follow-up with the lender on an outstanding collateral issue and the purchase package. Delays in completing the post-purchase review of loan guaranties increases the risk of the SBA

**U.S. SMALL BUSINESS ADMINISTRATION**  
 Management Letter Comments  
 FY 2011

not identifying invalid secondary market purchases requiring lender repair timely. In addition, there is a risk that the SBA will not maximize its collection efforts.

We recommend the OFPO Director:

- 23. Continue to allocate resources to work the inventory of post purchase reviews so these reviews are performed timely.
- 24. Reinforce the need to review the *Post Purchase Work in Progress* report at the NGPC and the *Pending 505 PDK* report at the Little Rock Servicing Center to ensure timely completion of post purchase reviews.
- 25. Reinforce, through training, the importance of timely post-purchase reviews.

**Management’s Response:**

The SBA’s management concurs with the findings and recommendations.

***IMPROPER PAYMENT – INCORRECT AMOUNT PAID AT TIME OF THE LOAN GUARANTY PURCHASE***

During our testwork over guaranty loan purchases at the NGPC and Little Rock Loan Servicing Center, we identified the following deficiencies which resulted in improper payments when the loan guaranty was purchased:

- Based on our review of the loan note, the SBA used an incorrect interest rate to calculate the interest owed to the lender, resulting in the following incorrect overpayments of interest to the lenders:

Loan Number	Site	Overpayment Amount
[FOIA ex. 4]	NGPC	\$ 631.55
[FOIA ex. 4, 6, 7C]	Little Rock	75.57
[FOIA ex. 4]	Little Rock	48.48
[FOIA ex. 4, 6, 7C]	Little Rock	77.77
	<b>Total</b>	\$ 833.37

**U.S. SMALL BUSINESS ADMINISTRATION**  
 Management Letter Comments  
 FY 2011

- Based on our review of the loan file and lender's transcript, the SBA erroneously excluded approved reimbursable expenses when calculating the purchase price of the loan guaranty, resulting in the following underpayment to the lender:

Loan Number	Site	Underpayment Amount
[FOIA ex. 4]	NGPC	\$(2,682.48)
	<b>Total</b>	<b>\$(2,682.48)</b>

- Based on our review of the loan file and lender's transcript, the SBA used an incorrect principal balance to calculate the purchase price of the loan guaranty, resulting in the overstatement of the principal balance at purchase and charge-off, and an overpayment to the lender for the following loan:

Loan Number	Site	Overpayment Amount
[FOIA ex. 4]	Little Rock	\$500.00
	<b>Total</b>	<b>\$500.00</b>

The approving official did not adequately review and compare supporting documentation in the loan file prior to approving the purchase and charged-off amounts in the Guaranty Purchase Tracking System (GPTS) and on the SBA Form 327, respectively.

Due to the deficiencies noted above, the SBA made overpayments totaling \$1,333.37 and underpayments totaling \$2,682.48. This resulted in a \$1,349.11 net understatement of the loan receivable balance.

We recommend the OFPO Director:

- Reinforce to all Center staff the importance of a thorough review and reconciliation of interest and principal prior to guaranty loan purchases. This would include a detailed review of the principal balance and interest recorded within GPTS, on the SBA Form 327, and in the supporting loan documentation (i.e., the note and the lender's transcript) to ensure agreement at the time of purchase.
- Correct the outstanding receivables or payables balance for each respective loan.
- Notify the lenders of the \$1,333.37 in overpayments and seek full recovery of the overpayments from the lenders.
- Issue a check to reimburse the lender for the \$2,682.48 in expenses that were incurred but not paid.

**Management's Response:**

The SBA's management concurs with the findings and recommendations. The SBA notes that its OFPO will not pursue recovery for amounts under \$50.

U.S. SMALL BUSINESS ADMINISTRATION  
Management Letter Comments  
FY 2011

***INADEQUATE REVIEW OF STAR TIME AND ATTENDANCE REPORTS***

During our testwork over a sample of 90 System for Time and Attendance Reporting (STAR) *Time and Attendance (T&A) Reports*, we noted the following deficiencies:

- Five STAR *T&A Reports* were signed and dated after the payroll disbursement occurred.
- Thirteen STAR *T&A Reports* lacked the employee's timekeeper and/or supervisor signature and date evidencing proper review and certification.

These deficiencies are indicative of a lack of supervisor and timekeeper reviews of STAR *T&A Reports*, as well as the accountability of hours incurred and charged by their employees. When a STAR *T&A Report* lacks the required signatures by an employee's timekeeper and/or supervisor, there is no evidence that an employee's hours worked are accurate, which could result in a misstatement in the payroll expense reported in the SBA's financial statements.

We recommend the Chief Human Capital Officer:

30. Continue to reinforce policies and procedures regarding the certification of STAR *T&A Reports* with supervisors and timekeepers (i.e., issuance of a memorandum, training).
31. Perform periodic quality assurance reviews to ensure supervisors and timekeepers are properly certifying and dating all STAR *T&A Reports*.

**Management's Response:**

The SBA's management concurs with the findings and recommendations.

***IMPROVEMENT NEEDED IN THE EMPLOYEE SEPARATION PROCESS***

During our review of internal control over the employee separation process, we reviewed the Official Personnel File for 30 employees, who had left the SBA, for evidence of a completed SBA Form 78, *Separation Checklist* (Checklist), SF 50, *Notification of Personnel Action*, and related payroll transactions.

While the SBA continues to show improvement over its human resource processes, our review showed that out of the 30 Checklists we reviewed, 26 Checklists were not completed in accordance with the instructions. The employees' supervisor and/or approving official did not realize the Checklists were incomplete during their final review and certification of the Checklist. For example, signatures/clearances were not obtained to confirm the return of laptop computers, travel cards, telephone calling cards, identification/fascards, office keys, and virtual private network tokens. Signatures/clearances were also not obtained to ensure that LAN accounts and e-mail account access were

**U.S. SMALL BUSINESS ADMINISTRATION**  
Management Letter Comments  
FY 2011

deactivated prior to employees leaving the SBA. We did not identify deficiencies related to the SF-50 or related payroll transactions.

- Adequate quality assurance reviews were not performed by responsible personnel in the Office of Human Capital Management and management officials in the SBA's program offices to ensure that Checklists were completed during the separation process. Without proper completion of the Checklist, the SBA lacks controls ensuring that property assigned to employees is returned to the SBA.
- Also, by not securing all required clearances prior to an employee leaving the SBA, an employee's access to the SBA's automated systems may not be timely terminated which poses a risk of vulnerabilities to the SBA's Information Technology general control environment.

We recommend the Chief Human Capital Officer:

32. Continue to work with and provide training for the SBA's management personnel to reinforce the importance of properly and fully completing the Checklist.
33. Establish policies and procedures that require specific roles for the OHCM personnel to perform quality assurance reviews to ensure that all required fields on the Checklist are completed prior to their sign-off.

**Management's Response:**

The SBA's management concurs with the findings and recommendations.

## U.S. Small Business Administration

## Status of Prior Year Comments

FY 2011

Fiscal Year 2010 Comments	Fiscal Year 2011 Status
<i>Management Letter</i>	
Lack of Effective Reviews over Open Obligations	Revised and repeated in Exhibit 1, page 3, under the following heading: <ul style="list-style-type: none"> <li>• <i>Improvement is Needed in the Open Obligations Review Process</i></li> </ul>
Insufficient Documentation and Untimely Deobligation of Undelivered Orders	Revised and repeated in Exhibit 1, page 3, under the following heading: <ul style="list-style-type: none"> <li>• <i>Improvement is Needed in the Open Obligations Review Process</i></li> </ul>
Lack of Documentation for Employee Cost Allocation Surveys	Resolved
Inadequate Controls over the 1502 Error Process	Revised and repeated in Exhibit 1, page 6, under the following heading: <ul style="list-style-type: none"> <li>• <i>Inadequate Controls over the 1502 Error Process</i></li> </ul>
Noncompliance with the Debt Collection Improvement Act of 1996 (DCIA)	Revised and repeated in Exhibit 1, page 1, under the following heading: <ul style="list-style-type: none"> <li>• <i>Noncompliance with the DCIA of 1996</i></li> </ul>
Inconsistent Review of Charged-off Loans in Workout Status	Resolved
Noncompliance with SOP 50 52 Loan Liquidation and Acquired Property – Untimely Guaranty Charge-offs	Resolved
Lack of Approving Official Review at Time of Guaranty Loan Charge-off	Revised and repeated in Exhibit 1, page 7, under the following heading: <ul style="list-style-type: none"> <li>• <i>Inadequate Reviews of Charge-offs and Guaranty Loan Purchases</i></li> </ul>
Noncompliance with SOP 50 51 2A, Loan Liquidation and Acquired Property – Missing Documentation within Loan Files	Revised and repeated in Exhibit 1, page 8, under the following heading: <ul style="list-style-type: none"> <li>• <i>Missing Loan Documentation</i></li> </ul>



U.S. Small Business Administration

Status of Prior Year Comments

FY 2011

Improper Payment – Incorrect Amount of Interest Paid at Time of Guaranty Purchase	Revised and repeated in Exhibit 1, page 10 under the following heading: <ul style="list-style-type: none"> <li>• <i>Improper Payment – Incorrect Amount Paid at Time of the Loan Guaranty Purchase</i></li> </ul>
Improper Payment – Incorrect Billing to Lenders at Charge-off	Revised and repeated in Exhibit 1, page 10, under the following heading: <ul style="list-style-type: none"> <li>• <i>Improper Payment – Incorrect Amount Paid at Time of the Loan Guaranty Purchase</i></li> </ul>
Lack of Segregation of Duties in the Sacramento Loan Processing FoxPro System	Resolved
Improvement Needed in the 7(a) Lender Oversight Process	Revised and repeated in Exhibit 1, page 5, under the following heading: <ul style="list-style-type: none"> <li>• <i>Untimely Follow-up on Lender Oversight Corrective Actions</i></li> </ul>
Improvement Needed in the Duplication of Benefits Process	Resolved
Improvement Needed over Time and Attendance (T&A) Payroll Controls	Revised and repeated in Exhibit 1, page 11, under the following heading: <ul style="list-style-type: none"> <li>• <i>Inadequate Review of STAR Time and Attendance Reports</i></li> </ul>
Improvement Needed to Ensure Standard Operating Procedures are Current	Resolved
Improvement Needed in the Employee Separation Process	Revised and repeated in Exhibit 1, page 12, under the following heading: <ul style="list-style-type: none"> <li>• <i>Improvement Needed in the Employee Separation Process</i></li> </ul>
Lack of Control over the Retention of Delegation of Authority and Line of Succession Memoranda	Resolved