



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

TRANSMITTAL MEMORANDUM
Report No. 12-06R

DATE: DECEMBER 15, 2011

TO: JEANNE A. HULIT
Acting Associate Administrator for Capital Access

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

SUBJECT: Recovery Act 504 Loan Pool Transaction Entry Process

The attached Management Letter identifies a matter that came to KPMG's attention during the audit of SBA's FY 2011 financial statements. The objective was to determine SBA's compliance with its guidance for approving Section 503 – 504 First Mortgage Lien Pools under the Recovery Act.

KPMG addressed one recommendation to the Director for the Office of Financial Assistance. We provided a draft of KPMG's report to this official or their designee, who concurred with the finding. The official or designee agreed to implement the recommendation or has already taken action to address the underlying condition.

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

cc/enc: Jonathan I. Carver



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**AMERICAN RECOVERY AND REINVESTMENT ACT
MANAGEMENT LETTER**

November 14, 2011

CONFIDENTIAL

Inspector General,
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. Our audit included tests of certain transactions and system enhancements related to SBA's implementation of the American Recovery and Reinvestment Act of 2009 (Recovery Act). 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 a certain matter involving internal control that is presented for your consideration related to the implementation of the Recovery Act. This comment and recommendation, which has been discussed with the appropriate members of management, is intended to improve internal control or result in other operating efficiencies and is 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 significant deficiencies, and communicated them in our *Independent Auditors' Report* dated November 14, 2011.

Our audit procedures were 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 this comment and recommendation 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
American Recovery and Reinvestment Act
Management Letter Comment
FY 2011

INADEQUATE CONTROLS OVER THE 504 LOAN POOL TRANSACTION ENTRY PROCESS

During our walkthrough of the American Recovery and Reinvestment Act of 2009 (Recovery Act) Section 503 – 504 First Mortgage Lien Pool Program, we determined the Office of Financial Assistance (OFA) does not have documented controls to ensure that the Fiscal Transfer Agent's (Colson) monthly upload of transaction details for each 504 loan pool into the OFA's Electronic Transaction (E-TRAN) System is correct and reliable.

According to a Financial Analyst in the OFA, while there is a review process over the entry and upload of the monthly transaction details into the E-TRAN System, the OFA has not formally documented the review process.

A lack of properly documented internal control regarding the electronic transfer of financial data from one automated system to another increases the risk of invalid and/or incorrect loan transaction details being recorded in the system and included in the SBA's financial statements.

We recommend the OFA Director:

1. Develop, document, and implement policies and procedures regarding the review and approval over the entry and upload of 504 first mortgage lien pool transactions.

Management's Response:

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

U.S. Small Business Administration

Status of Prior Year Comments

FY 2011

Fiscal Year 2010 Comments	Fiscal Year 2011 Status
<i>Recovery Act Management Letters</i>	
Improper Allotment of American Recovery and Reinvestment Act of 2009 Apportionments	Resolved
Lack of Documentation and Incorrect Accounting	Resolved