




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

**Final Report Transmittal**  
Report Number: 19-04

**DATE:** November 15, 2018

**TO:** Linda E. McMahon  
Administrator

**FROM:** Hannibal "Mike" Ware   
Inspector General

**SUBJECT:** Independent Auditors' Report on SBA's FY 2018 Special-Purpose Financial Statements

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to audit the U.S. Small Business Administration's (SBA's) accompanying Closing Package Financial Statement Report, which comprises the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) Reconciliation Report; Reclassified Balance Sheet as of September 30, 2018, and the related GTAS Reconciliation Reports; Reclassified Statement of Net Cost, and Reclassified Statement of Operations and Changes in Net Position for the year then ended; and the related notes to the financial statements (hereinafter referred to as the "closing package financial statements").

KPMG performed the audit in accordance with the Office of Management and Budget Circular No. A-136, Financial Reporting Requirements, and the Department of the Treasury (Treasury) Treasury Financial Manual, Volume 1, Part 2, Chapter 4700 (TFM 2-4700).

The attached independent auditors' report presents an unmodified opinion on SBA's special-purpose financial statements for fiscal year (FY) 2018. Specifically, KPMG reported that the statements present SBA's financial position for FY 2018 fairly in all material respects. Also, the results of operations and the changes in net position for the period are in accordance with U.S. generally accepted accounting principles, and the presentation is in conformance with the requirements of TFM 2-4700 and the Treasury's Supplemental Guidance.

As requested, the following documents also were provided:

- (1) GTAS Reclassified Financial Statements
- (2) GF005G GTAS Closing Package Lines Loaded Report (Federal Trading Partner Data)
- (3) "Agency Financial Report to Closing Package Reconciliation Template"
- (4) GF006G FR Notes Report
- (5) GF007F Other FR Data Report
- (6) Closing Package Additional Notes
- (7) Management Representation Letter on the Closing Package, including the Summary of Uncorrected Misstatements
- (8) Management Representation Letter on the Audited Financial Statements, including the Summary of Uncorrected Misstatements

KPMG is responsible for the attached auditors' report dated November 15, 2018, and the conclusions expressed therein. We appreciate the cooperation and assistance of SBA and KPMG during the audit. Should you or your staff have any questions, please contact me or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

cc: Pradeep Belur, Chief of Staff  
Timothy Gribben, Chief Financial Officer and Associate Administrator for  
Performance Management  
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Attachment



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## Independent Auditors' Report

Inspector General  
U.S. Small Business Administration

Administrator  
U.S. Small Business Administration

### Report on the Closing Package Financial Statements

We have audited the accompanying Closing Package Financial Statement Report of the United States (U.S.) Small Business Administration (SBA), which comprises the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) Reconciliation Report – Reclassified Balance Sheet as of September 30, 2018, and the related GTAS Reconciliation Reports – Reclassified Statement of Net Cost and Reclassified Statement of Operations and Changes in Net Position for the year then ended, and the related notes to the financial statements (hereinafter referred to as the closing package financial statements). The notes to the financial statements comprise the following:

- GTAS Closing Package Lines Loaded Report,
- Financial Report (FR) Notes Report (except for the information entitled “2017 – September”, “Prior Year”, “PY”, “Previously Reported”, “Line Item Changes”, and “Threshold”, and the information as of and for the year ended September 30, 2017 in the “Text Data”), and
- Additional Note No. 1 – Summary of Significant Accounting Policies.
- Additional Note No. 2 – Fiduciary Activities: Master Reserve Fund and Master Reserve Account (except for the information as of and for the year ended September 30, 2017).
- Additional Note No. 3 – Credit Program Receivables and Liability for Loan Guaranties (except for the information as of and for the year ended September 30, 2017).
- Additional Note No. 4 – Required Supplementary Stewardship Information: Stewardship Investments in Human Capital (except for the information as of and for the years ended September 30, 2014 through 2017).

### *Management's Responsibility for the Closing Package Financial Statements*

SBA management is responsible for the preparation and fair presentation of these closing package financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the closing package financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these closing package financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*.



Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the closing package financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the closing package financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the closing package financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the closing package financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the closing package financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion on the Closing Package Financial Statements*

In our opinion, the closing package financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Small Business Administration as of September 30, 2018, and its net cost and changes in net position for the year then ended in accordance with U.S. generally accepted accounting principles.

#### *Emphasis of Matter*

We draw attention to Additional Note No. 1 – Summary of Significant Accounting Policies to the closing package financial statements, which describes that the accompanying closing package financial statements were prepared to comply with requirements of the U.S. Department of the Treasury's *Treasury Financial Manual* (TFM) Volume I, Part 2, Chapter 4700 (TFM Chapter 4700) for the purpose of providing financial information to the U.S. Department of the Treasury and the U.S. Government Accountability Office (GAO) to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of the consolidated balance sheet of the SBA as of September 30, 2018, and the related consolidated statements of net cost, changes in net position, and combined statement of budgetary resources (hereinafter referred to as the general-purpose financial statements) for the year then ended. The notes to the closing package financial statements are those that the U.S. Department of the Treasury deemed relevant to the *Financial Report of the U.S. Government*. Our opinion is not modified with respect to this matter.

#### *Other Matters*

##### Opinion on the General-Purpose Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with OMB Bulletin No. 19-01, the general-purpose financial statements of the U.S. Small Business Administration as of and for the years ended September 30, 2018 and 2017, and our report thereon, dated November 14, 2018, expressed an unmodified opinion on those financial statements.

##### Required Supplementary Information

U.S. generally accepted accounting principles require that the information, except for such information entitled "2017 – September", "Prior Year", "PY", "Previously Reported", "Line Item Changes", and "Threshold" be presented to supplement the basic closing package financial statements.

Such information, although not a part of the basic closing package financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB) who considers it to be an essential part of financial



reporting for placing the basic closing package financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic closing package financial statements, and other knowledge we obtained during our audit of the basic closing package financial statements. Although our opinion on the basic closing package financial statements is not affected, Other Data Report No. 8 contains material departures from the prescribed guidelines because the information included in this Other Data Report presents the information required by TFM Chapter 4700 and not the information required by U.S. generally accepted accounting principles for the SBA's financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Combining Statement of Budgetary Resources, and Management's Discussion and Analysis that U.S. generally accepted accounting principles require to be presented to supplement the basic closing package financial statements. Such missing information, although not a part of the basic closing package financial statements, is required by the FASAB who considers it to be an essential part of financial reporting for placing the basic closing package financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic closing package financial statements is not affected by this missing information.

#### Other Information

Our audit was conducted for the purpose of forming an opinion on the closing package financial statements as a whole. The information other than that described in the first paragraph and the first paragraph of the subsection labeled *Required Supplementary Information* are presented for purposes of additional analysis in accordance with TFM Chapter 4700 and are not a required part of the closing package financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the closing package financial statements as of and for the year ended September 30, 2018, and accordingly, we do not express an opinion or provide any assurance on it.

#### *Restriction on Use of the Report on the Closing Package Financial Statements*

This report is intended solely for the information and use of the management of the SBA, SBA's Office of the Inspector General, U.S. Department of the Treasury, OMB, and GAO in connection with the preparation and audit of the *Financial Report of the U.S. Government* and is not intended to be and should not be used by anyone other than these specified parties.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards* and OMB Bulletin No. 19-01, we have also issued a combined auditors' report dated November 14, 2018 which presents our opinion on the SBA's general-purpose financial statements; our consideration of the SBA's internal control over financial reporting (internal control); and the results of our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters that are required to be reported under *Government Auditing Standards*. That report should be read in conjunction with this report in considering the results of our audit of the closing package financial statements. Our audit of the general-purpose financial statements as of and for the year ended September 30, 2018 disclosed the following significant deficiency:

- Improvement Needed in Information Technology Security Controls - During the fiscal year (FY) 2018 financial statement audit, we found that SBA continued to implement corrective actions on some of the prior year information technology (IT) findings; however, a number of conditions persisted in FY 2018 that limited SBA's ability to effectively manage its information system risks. Collectively, these conditions increase the risk of unauthorized use, modification, or destruction of financial data, which may impact the integrity of



information used to prepare the financial statements. As a result, the conditions continue to present a significant deficiency in SBA's internal control environment.

*Internal Control Over Financial Reporting Specific to the Closing Package Financial Statements*

In planning and performing our audit of the closing package financial statements, we considered the SBA's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the closing package 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control specific to the closing package financial statements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

*Compliance and Other Matters Specific to the Closing Package Financial Statements*

As part of obtaining reasonable assurance about whether the SBA's closing package financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the closing package financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit of the closing package financial statements, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01.

*Purpose of the Other Reporting Required by Government Auditing Standards*

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the SBA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

*KPMG LLP*

Washington, DC  
November 15, 2018