



**OFFICE OF INSPECTOR GENERAL  
U.S. SMALL BUSINESS ADMINISTRATION**

**MEMORANDUM**

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**DATE:** February 26, 2026

**TO:** Kelly Loeffler  
Administrator

**FROM:** William W. Kirk  
Inspector General

A handwritten signature in black ink that reads "Will W. K." with a stylized flourish at the end.

**SUBJECT:** KPMG Management Letter Communicating Matters Relative to SBA's Fiscal Year 2025 Financial Statements Audit (Report 26-06)

On January 21, 2026, we issued the financial statements audit report ([Report 26-03](#)) performed by the independent certified public accounting firm KPMG LLP. The auditors issued a disclaimer of opinion on the consolidated balance sheet as of September 30, 2025. During that audit, KPMG identified and reported on four material weaknesses and one significant deficiency.

When conducting an audit of an agency's financial statements, auditors may identify certain other matters involving internal controls that do not rise to the level of a material weakness or significant deficiency and are not required to be reported in the independent auditors' report. Instead, those matters are communicated in a management letter.

This memorandum has been prepared to transmit a management letter prepared by KPMG, dated February 20, 2026, to report internal control issues identified during the 2025 financial statement audit, that were not included in the final financial statement audit report. The attached management letter entitled *Controls Related to the Reporting of Outstanding Guaranty Loans* details the following issues identified by KPMG:

- Management did not properly categorize the 1 month reporting lag of the guaranty loan balances as a non-generally accepted accounting principles policy.
- Management did not perform a timely review of the non-generally accepted accounting principles policy related to the untimely reporting of the guaranty loan balances and determine its impact on the financial statements and related notes.

The auditors made two recommendations based on these findings that management agreed to implement to improve internal controls. We consider the recommendations issued in this letter as open audit recommendations. In accordance with our audit follow-up process, we will monitor management's implementation of the corrective actions.

This letter does not affect the independent auditors' report issued on January 21, 2026. KPMG is responsible for the enclosed letter and the conclusions expressed in it.

Should you or your staff have any questions, please contact me or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

cc: Bill Briggs, Deputy Administrator, Office of the Administrator  
Wesley Coopersmith, Chief of Staff, Office of the Administrator  
Ben Grayson, Deputy Chief of Staff, Office of the Administrator  
Robin Wright, Chief Operating Officer, Office of the Administrator  
Nathan Davis, Chief Financial Officer and Chief Risk Officer, Office of Performance,  
Planning, and the Chief Financial Officer  
Deborah Chen, Deputy Chief Financial Officer, Office of Performance, Planning, and the  
Chief Financial Officer  
Wendell Davis, General Counsel, Office of General Counsel  
Michael Simmons, Attorney Advisor, Office of General Counsel

Attachment



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

February 20, 2026

William W. Kirk  
U.S. Small Business Administration  
409 3rd Street SW  
Washington, D.C., 20416

To the U.S Small Business Administration Office of the Inspector General:

In planning and performing our audit of the balance sheet of the U.S. Small Business Administration (SBA) as of and for the year ended September 30, 2025, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated January 21, 2026, on our consideration of the Agency's internal control over financial reporting in which we communicated certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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. During our audit, we noted certain matters related to internal control 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 the internal control process or result in other operating efficiencies and are summarized in Attachment I. We would be pleased to discuss these comments and recommendations with you at any time.

The purpose of this letter is solely to describe the deficiencies in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

**KPMG LLP**

## Management Letter Comments

### Controls Related to the Reporting of Outstanding Guaranty Loans

#### Conditions:

During our risk assessment process, we found that effective controls did not exist over the reporting of non-GAAP policies that impact the outstanding guaranty loan balance reported in the notes to the financial statements. Specifically, we found the following control deficiencies:

- Management did not properly categorize the one month reporting lag of the guaranty loan balances as a non-GAAP policy.
- Management did not perform a timely review of the non-GAAP policy related to the untimely reporting of the guaranty loan balances and determine its impact on the financial statements and related notes.

#### Criteria:

**GAO Green Book 6.10** states "Management also evaluates whether risk tolerances enable the appropriate design of internal control by considering whether they are consistent with requirements and expectations for the defined objectives. As in defining objectives, management considers the risk tolerances in the context of the entity's applicable laws, regulations, and standards as well as the entity's standards of conduct, oversight structure, organizational structure, and expectations of competence. If risk tolerances for defined objectives are not consistent with these requirements and expectations, management revises the risk tolerances to achieve consistency."

**GAO Green Book 7.01** states "Management should identify, analyze, and respond to risks related to achieving the defined objectives."

**GAO Green Book 7.08** states "Management designs responses to the analyzed risks so that risks are within the defined risk tolerance for the defined objective. Management designs overall risk responses for the analyzed risks based on the significance of the risk and defined risk tolerance."

**Office of Management and Budget Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control**, states "Management's responsibility is to develop and maintain effective internal control that is consistent with its established risk appetite and risk tolerance levels. In addition, management is responsible for establishing and integrating internal control into its operations in a risk-based and cost beneficial manner, in order to provide reasonable assurance that the entity's internal control over operations, reporting, and compliance is operating effectively."

#### Causes:

Management's risk assessment process did not identify the loan guaranty reporting matter as non-GAAP and, therefore, did not sufficiently analyze the potential impact the non-GAAP policy could have on the financial statements.

#### Effects:

The one month lag in guaranty loans reporting resulted in a \$747M understatement of the Total Principal Outstanding at Face Value and a \$537M understatement of the Total Principal Outstanding Guaranteed by the SBA note disclosures.

**Recommendations:**

We recommend the Administrator coordinate with the Financial Reporting Division to:

1. Enhance the risk assessment process to include a comprehensive review of all accounting policies and related transactions, specifically to evaluate the impact of SBA's non-GAAP policies on the financial statements. If a non-GAAP policy is identified, assess its impact and determine appropriate corrective actions.
2. Enhance monitoring activities to ensure ongoing compliance with GAAP and to promptly identify any non-GAAP policies.