



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

Final Report Transmittal
Report Number: 16-03

DATE: November 17, 2015

TO: Maria Contreras-Sweet
Administrator, Small Business Administration

Douglas Kramer
Deputy Administrator, Small Business Administration

Tami Perriello
Chief Financial Officer, Small Business Administration

FROM: Troy M. Meyer /s/
Assistant Inspector General for Auditing

SUBJECT: *Independent Auditors' Report on SBA's FY 2015 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) reclassified balance sheet as of September 2015 and 2014, and the reclassified statements of net costs and changes in net position and Federal trading partner note (referred to as special-purpose financial statements) for fiscal year (FY) 2015, ending September 30, 2015. The independent auditor performed the audit in accordance with the Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements*, and the *Treasury Financial Manual*, Part 2, Chapter 4700 (TFM 2-4700).

The attached independent auditor's report presents an unmodified opinion on SBA's special-purpose and consolidated financial statements for FY 2015. Specifically, KPMG reported that the statements, including the Federal trading partner note, present SBA's financial position for FY 2014 and 2015 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.

As requested, the following documents were also provided:

- (1) GF003F Closing Package Financial Statement Report;
- (2) GF003G Closing Package Line Reclassification Summary Report;
- (3) GF004F Federal Trading Partner Summary Note Report;
- (4) GF006 FR Notes Report;
- (5) GF007 Other FR Data Report;
- (6) Closing Package Additional Note;
- (7) Management Representation Letter on the Closing Package, including the Summary of Uncorrected Misstatement; and
- (8) Management Representation Letter on the audited financial statements, including the Summary of Uncorrected Misstatement.

We reviewed KPMG's report and related documentation and made necessary inquiries of its representatives. Our review was not intended to enable us to express—and we do not express—an opinion on SBA's reclassified financial statements or on conclusions about internal control and SBA's compliance with laws and regulations. However, our review disclosed no instances where KPMG did not comply, in all materials respects, with the *Generally Accepted Government Auditing Standards*. We appreciate the cooperation and assistance of SBA and KPMG representatives. Should you or your staff have any questions, please contact me at (202) 205-7390 or Jeffrey R. Brindle, Director of the Information Technology and Financial Management Group at (202) 205-7490.

cc: Nick Maduros, Chief of Staff
Melvin F. Williams, Jr., General Counsel
Martin Conrey, Attorney Advisor, Legislation and Appropriations
LaNae Twite, Director, Office of Internal Controls

Attachment



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Independent Auditors' Report

Inspector General
U.S. Small Business Administration:

Report on the Closing Package Financial Statements

We have audited the accompanying Closing Package Financial Statement Report of the U.S. Small Business Administration (SBA), which comprises the Closing Package Financial Statement Report – Balance Sheet as of September 30, 2015 and 2014, and the related Closing Package Financial Statement Reports – Statement of Net Cost and Statement of Changes in Net Position for the years then ended, and the related Financial Report (FR) Notes Reports (except for the information in the FR Notes Reports entitled “Threshold”); the accompanying Additional Note – Summary of Significant Accounting Policies; the accompanying Trading Partner Summary Note Report – Balance Sheets as of September 30, 2015 and 2014; and the related Trading Partner Summary Note Reports – Statement of Net Cost and Statement of Changes in Net Position for the years then ended (hereinafter referred to as the “closing package financial statements”).

Management's Responsibility for the Closing Package Financial Statements

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 audits. We conducted our audits 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. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 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, 2015 and 2014, and its net costs and changes in net position for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

We draw attention to Additional Note – 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 1, 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 sheets of the SBA as of September 30, 2015 and 2014, and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources (hereinafter referred to as the “general-purpose financial statements”) for the years then ended. 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; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 15-02, the general-purpose financial statements of the U.S. Small Business Administration as of and for the years ended September 30, 2015 and 2014, and our report thereon, dated November 16, 2015, expressed an unmodified opinion on those financial statements.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in Other Data Report Nos. 1, 8, 9, 14, 17, and 18, except for the information included in the Other Data Info Section C – Tax Gap of Other Data Report No. 1, Other Text Data of Other Data Report No. 1, and the information in the Other Data Report No. 8 entitled “Threshold” (which are discussed below), 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 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 audits of the basic closing package 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 Federal Accounting Standards Advisory Board 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 audits were conducted for the purpose of forming an opinion on the closing package financial statements as a whole. The information included in the Other Data Report Nos. 15 and 16; the information included in the Other Data Info Section C – Tax Gap of Other Data Report No. 1; the information included in the Other Text Data of Other Data Report No. 1; the information entitled “Threshold” in the Other Data Report No. 8 and the information entitled “Threshold” in FR Notes Report Nos. 3, 4A, 4B, 8, 9, and 15; the information in the Closing Package Line Reclassification Summary Report – Balance Sheet; the information in the Closing Package Line Reclassification Summary Reports – Statement of Net Cost and Statement of Changes in Net Position 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 audits of the closing package financial statements, 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. 15-02, we have also issued a combined auditors’ report dated November 16, 2015 which presents our opinion on the SBA’s general-purpose financial statements; our consideration of the SBA’s internal control over financial reporting; 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 audits of the closing package financial statements. Our audit of the general-purpose financial statements as of and for the year ended September 30, 2015 disclosed the following material weaknesses, significant deficiencies, and compliance and other matters:

- Significant Deficiency: Improvement Needed in Information Technology Security Controls
- Compliance Matter: Noncompliance with the Debt Collection Improvement Act of 1996
- Compliance Matter: Management reported violation of the Antideficiency Act

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 also considered the SBA’s internal control over financial reporting (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 for 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 also performed tests of its compliance with certain provisions of TFM Chapter 4700, 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 with TFM Chapter 4700 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02.

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 result 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 17, 2015