



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

Final Report Transmittal
Report Number: 19-03

DATE: November 14, 2018

TO: Linda E. McMahon
Administrator

FROM: Hannibal "Mike" Ware
Inspector General

A handwritten signature in black ink, appearing to read "H. Ware", written over the printed name of the Inspector General.

SUBJECT: Independent Auditors' Report on SBA's FY 2018 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) consolidated financial statements for fiscal year (FY) 2018, ending September 30, 2018. This audit is an annual requirement of the Chief Financial Officers Act of 1990 and was conducted in accordance with generally accepted government auditing standards; the Office of Management and Budget Bulletin No. 19-01, Audit Requirements for Federal Financial Statements; and the U.S. Government Accountability Office's Financial Audit Manual and Federal Information System Controls Audit Manual.

The attached independent auditors' report presents an unmodified opinion on SBA's consolidated financial statements for FY 2018. Specifically, KPMG reported that

- the financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- there were no material weaknesses in internal control;
- there were no instances in which SBA's financial management systems did not substantially comply with the Federal Financial Management Improvement Act of 1996 (FFMIA); and
- there is a significant deficiency related to SBA's information technology security controls, which has been identified in the past.

Details regarding KPMG's conclusions are included in Attachment I to this report. Within 30 days of this report, KPMG expects to issue a separate letter to SBA management regarding other, less significant matters that came to its attention during the audit.

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express—and we do not express—opinions on SBA's financial statements or internal control over financial reporting or conclusions on whether SBA's financial management systems substantially complied with the three FFMIA requirements, or on compliance with laws and other matters. KPMG is responsible for the attached auditors' report dated November 14, 2018, and the conclusions expressed therein. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

We provided a draft of KPMG's report to SBA's Chief Financial Officer, who concurred with its findings and recommendations and agreed to implement the recommendations. The Chief Financial Officer's comments are attached as Attachment II of this report.

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
Maria Roat, Chief Information Officer
Christopher M. Pilkerton, General Counsel
Martin Conrey, Attorney Advisor, Legislation and Appropriations
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Attachments



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Independent Auditors' Report

Inspector General
U.S. Small Business Administration

Administrator
U.S. Small Business Administration

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States (U.S.) Small Business Administration (SBA), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

SBA management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S., 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 the 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated 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 2017, and its net



costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Interactive Data

SBA management has elected to reference to information on websites or other forms of interactive data outside the U.S. Small Business Administration's FY 2018 Agency Financial Report to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 U.S., 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 consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The Message from the Administrator, Other Information, Message from the Chief Financial Officer, Appendices, and the Audit and Financial Management Advisory Committee's Report in the U.S. Small Business Administration's FY 2018 Agency Financial Report are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2018, we considered 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of SBA's internal control. Accordingly, we do not express an opinion on the effectiveness of SBA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982.

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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified the following deficiency in internal control, described in Attachment I that we consider to be a significant deficiency:

Improvement Needed in Information Technology Security Controls

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SBA's consolidated 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which SBA's financial management systems did not substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the U.S. Government Standard General Ledger at the transaction level.

SBA's Response to Findings

SBA's response to the findings identified in our audit is described in the accompanying Attachment II. SBA's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

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 SBA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 14, 2018

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.

In an effort to provide additional clarity to SBA management with respect to the corrective actions required, we enhanced our prior year recommendations where issues persisted in FY 2018, and issued additional recommendations for the new control deficiencies identified. In the sections below, we distinguish between recurring conditions and related recommendations, and those that were newly identified in FY 2018. We have omitted some technical details from the conditions and recommendations due to the sensitivity of the information. These details were communicated to management in Notices of Findings and Recommendations throughout the audit.

The following criteria were considered with respect to the matter described in the preceding paragraph:

- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53 Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*
- Federal Information Processing Standards Publication (FIPS) 200, *Minimum Security Requirements for Federal Information and Information Systems*
- SBA Standard Operating Procedure (SOP) 90 47 4, *SBA Information Technology Security Policy*

We have summarized the IT control deficiencies that we noted during the FY 2018 audit below, and have organized them by the following general IT control objectives: logical access controls, and system configuration management.

Logical Access Controls

An integral part of the effectiveness of an organization's security program management efforts should be to ensure that logical access controls provide reasonable assurance that IT resources, such as data files, application programs, and IT-related facilities/equipment, are protected against unauthorized modification, disclosure, loss, or impairment.

Our audit found that the following control deficiencies identified in prior years persisted in FY 2018:

- User accounts were not recertified in accordance with SBA policy.
- The employee exit clearance and contractor offboarding processes were not documented to ensure that access to SBA's systems was timely removed upon separation.

Our audit identified the following new control deficiencies in FY 2018:

- Audit logs do not include sufficient detail to identify the security events that were reviewed or the staff that performed the review.
- Segregation of duties for certain system administrators that have access to the server need improvement.
- The principle of "least privilege" for user/service accounts with administrator privileges was not enforced.

Recommendations – Logical Access Controls

We have issued the following recommendations to address the repeat and new control deficiencies listed in the section above.

We recommend that the Administrator require the Chief Information Officer (CIO) to:

1. Implement a process to formally document and communicate recertification reviews to Office of the Chief Information Officer (OCIO) management.
2. Consider creating an Agencywide working group to provide effective oversight and solutions to address the entitywide conditions cited and implement streamlined, efficient and effective user access “best practices” currently used by the private sector and other Federal agencies.
3. Develop and document procedures over the separation process that identify the roles and responsibilities for each office.
4. Create a process to identify separated contractors from their respective program office/Contracting Officer, centrally track and monitor for contractor separations, and communicate contractor separations to stakeholders that are required for the timely removal of logical access.
5. Implement a more strict policy for account suspension after inactivity to account for SBA employees who may have not have been removed via the manual account removal process.
6. Continue to enhance and strengthen the audit logging and review controls to specify which events were reviewed, who performed the review, and whether issues were identified, escalated, and resolved.
7. Develop procedures that enforce segregation of duties and implement mitigating controls to help ensure that personnel performing security functions, such as system administrators, are restricted from using administrative privileges to modify audit records and configurations on the centralized audit log server.

System Configuration Management

An integral part of the effectiveness of an organization’s security program management efforts should be to ensure that application change management controls provide reasonable assurance that program changes implemented to the applications are appropriate and authorized.

Our audit noted that although improvements have been made, the following new control deficiency exists in FY 2018:

- Certain changes to the system did not have sufficiently tracked and maintained documentation to provide traceability of the type of change and the approver.

Recommendations – System Configuration Management

To address the system configuration management condition above, we recommend that the Administrator require the Associate Administrator for the Office of Capital Access (OCA) to:

8. Strengthen change management controls in order to maintain sufficient documentation regarding the details of authorized changes and their approvals.
9. Implement a compensating control to retain the data of those with ‘Approver’ and ‘Requestor’ privileges within the Change Control Board SharePoint tool. This data must be maintained in SharePoint after personnel with those privileges have left the Agency in order to maintain the integrity of the tool.



CFO Response to Draft Audit Report on FY 2018 Financial Statements

DATE: November 14, 2018

TO: Hannibal M. Ware, Inspector General

FROM: Timothy Gribben, Chief Financial Officer and
Associate Administrator for Performance Management *Tim Gribben*

SUBJECT: FY 2018 Financial Statement Audit

The Small Business Administration has reviewed the draft Independent Auditors' Report from KPMG that includes the auditors' opinion on the financial statements and its review of the Agency's internal control over financial reporting and compliance with laws and regulations. The independent audit of the Agency's financial statements and related processes is a core component of SBA's financial management program.

We are pleased that the SBA has again received an unmodified audit opinion with no material weaknesses from the independent auditor. We believe these results accurately reflect the quality of the Agency's financial statements and our continued efforts to further improve our accounting, budgeting, and reporting processes. The SBA has diligently worked in past years to address findings from our independent auditor.

The audit report includes a continuing significant deficiency in SBA's information technology security controls. The SBA appreciates the recommendations from the auditors, and we look forward to working with you to continue to improve financial management in our Agency. To address outstanding recommendations the Office of the Chief Information Officer (OCIO) increased governance and oversight, stabilized and modernized SBA's network and systems, addressed security deficiencies, and improved SBA's cybersecurity posture. In FY 2018, OCIO closed a significant number of long-term security findings by implementing new security controls and processes. Also, in FY 2018, OCIO was chosen by OMB and DHS to demonstrate the use of advanced cloud cybersecurity tools to protect a federal agency. That pilot was successful, and the results will be integrated into OMB cybersecurity policy. The SBA will continue to pursue additional policies and enhanced monitoring activities to address deficiencies in logical access controls and system configuration management.

We appreciate your efforts, those of your colleagues in the Office of the Inspector General, as well as those of KPMG. The independent audit process continues to provide us with new insights and valuable recommendations that directly support our efforts to further enhance SBA's financial management practices. We remain committed to excellence in financial management and look forward to making more progress in the coming year.