



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

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**Final Report Transmittal**  
Report Number: 19-05

**DATE:** December 18, 2018

**TO:** Linda E. McMahon  
Administrator

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

**SUBJECT:** KPMG Management Letter Communicating Matters Relative to SBA's FY 2018  
Financial Statement Audit

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. The audit was performed in accordance with generally accepted government auditing standards; the Office of Management and Budget's Bulletin No. 19-01, Audit Requirements for Federal Financial Statements; the U.S. Government Accountability Office (GAO)/President's Council on Integrity and Efficiency Financial Audit Manual; and GAO's Federal Information System Controls Audit Manual.

The attached management letter represents matters that were identified during the audit. KPMG addressed recommendations to the Chief Information Officer and the Associate Administrator for Capital Access. We provided a draft of KPMG's finding to these officials or their designees, who fully concurred with the findings. The officials or designees agreed or have already taken action to address the underlying conditions.

Should you 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  
William Manger, Associate Administrator for Capital Access  
Maria Roat, Chief Information Officer  
Christopher M. Pilkerton, General Counsel  
Martin Conrey, Attorney Advisor, Legislation and Appropriations  
LaNae Twite, Director, Office of Internal Controls  
Michael Simmons, Attorney Advisor

Attachment



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December 18, 2018

Hannibal "Mike" Ware  
Inspector General  
U.S. Small Business Administration  
Washington, DC 20416

Linda E. McMahon  
Administrator  
U.S. Small Business Administration  
Washington, DC 20416

In planning and performing our audit of the financial statements of the U.S. Small Business Administration (SBA), as of and for the year ended September 30, 2018 and 2017, 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 SBA'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 SBA's internal control. Accordingly, we do not express an opinion on the effectiveness of SBA'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 November 14, 2018 on our consideration of SBA's internal control over financial reporting in which we communicated certain deficiencies in internal control that we consider to be 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 internal control 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.

This 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

### Information Technology (IT) Resource Password Weakness

#### Conditions

An SBA program office did not configure the application layer password configurations for an IT resource in accordance with standard operating procedure (SOP) 90 47 4. Specifically, KPMG noted that the:

- minimum password length was configured to be 8 characters and SOP 90 47 4 requires a minimum length of 12 characters, and
- maximum password age is configured to be 90 days and SOP 90 47 4 requires a maximum age of 60 days.

#### Criteria

National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 4, Security Controls and Assessment Procedures for Federal Information Systems and Organizations, control IA-5.

The organization: [...] (b) Establishing initial authenticator content for authenticators defined by the organization; (c). Ensuring that authenticators have sufficient strength of mechanism for their intended use; (e.) Changing default content of authenticator's prior information system installation; (f). Establishing minimum and maximum lifetime restrictions and reuse conditions for authenticators; (g). Changing/refreshing authenticators [Assignment: organizing-defined time period by authenticator type]; (i). Requiring individuals to take, and having devices implemented, specify security safeguards to protect authenticators.

SOP 90 47 4, Information Technology Security Policy, dated September 8, 2017.

Authentication schemes using passwords as an authenticator must implement the following security requirements:

- (a) Passwords must contain a minimum of 12 characters from three of the following four character types: uppercase letters, lowercase letters, numbers, and non-alphanumeric characters.
- (b) Information systems must be designed to require passwords to be changed not less frequently than every 60 days.

#### Cause

The program office did not timely initiate a system change request (SCR) to update the password configurations in accordance with the SOP, and the application password configurations were not in accordance with agency policy for the majority of fiscal year 2018.

#### Effect

Having password configurations that do not meet agency policy increases the risk that a password may be guessed or obtained by unauthorized individuals and used to gain access to SBA IT resources. Unauthorized access to agency IT resources could allow individuals access to sensitive information that

users could release to the public, or allow unauthorized users to create, modify, or approve unauthorized information within an application.

**Recommendations**

We recommend that the Administrator require the Chief Information Officer to work with SBA program offices to improve and strengthen the password identification and authentication process by:

1. Periodically reviewing SBA policies and procedures to ensure compliance with requirements.
2. Monitoring the status of SCRs to ensure that password configurations are 12 characters, and that a 60 day maximum age is required.

**Management's Response**

SBA management concurred with the finding and recommendations.

## Management Letter Comments

### Noncompliance with the Debt Collection Improvement Act of 1996

#### Condition

During our compliance testing of 58 loans, we identified two guaranty loans that were not referred to the Department of the Treasury (Treasury) within 120 days of the charge-off date, including one loan referred after 382 days in the amount of \$152,570, and another referred after 126 days in the amount of \$704,911.

#### Criteria

Debt Collection Improvement Act of 1996 (DCIA), as amended.

Section 3716(c)(6) of title 31, United States Code, as amended by the Digital Accountability and Transparency Act of 2014 (DATA Act): “(6) Any Federal agency that is owed by a person a past due, legally enforceable nontax debt that is over 120 days delinquent, including nontax debt administered by a third party acting as an agent for the Federal Government, shall notify the Secretary of the Treasury of all such nontax debts for purposes of administrative offset under this subsection.”

GAO-14-704G, Standards for Internal Control in the Federal Government (Green Book)

Section OV2.22: Management considers the objective in the category of compliance comprehensively for the entity and determines what controls are necessary to design, implement, and operate for the entity to achieve these objectives appropriately.

Section 10.03: Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.

#### Cause

Inadequate quality controls over SBA’s charge-off process caused delays in recording charged-off transactions. We identified deficiencies in timely performing of charge-off activities such as establishing required billings, reviewing expenses, and submitting the final approved charge-off action to data entry personnel.

#### Effects

The lack of adequate controls resulted in charge-offs totaling \$857,481 not being entered into SBA’s system timely; delayed the referral of liable obligors to Treasury, and caused SBA to be noncompliant with DCIA.

#### Recommendation

3. We recommend that the Administrator require the Associate Administrator for Capital Access to work with the loan servicing center directors and continue to implement processes and controls, as well as train employees, regarding timely and accurately performing charge-off activities.

**Management's Response**

SBA management concurred with the finding and recommendation.