



U.S. Small Business Administration
Office Inspector General

Memorandum

To: Eric Zarnikow
Associate Administrator for Capital Access
/s/ Original Signed

Date: December 15, 2009

From: Debra S. Ritt
Assistant Inspector General for Auditing

Subject: Lack of Approval for a Recovery Act Surety Bid Bond Guarantee
ROM 10-09

Attached is the Management Letter issued by KPMG LLP which identifies a matter that came to their attention during the audit of SBA's FY 2009 financial statements. The objective was to determine SBA's compliance with its guidance for approving loans funded under Section 508 – Surety Bond Guarantees of the Recovery Act.

KPMG addressed recommendations to the Director for the Office of Surety Bond Guarantees. We provided a draft of KPMG's report to this official or his designee, who concurred with the finding. The official or designee agreed to implement the recommendations or has already taken action to address the underlying conditions.

Should you or your staff have any questions, please contact Jeffrey R. Brindle, Director, Information Technology and Financial Management Group at (202) 205- [FOIA ex. 2]

Cc: Jonathan I. Carver



KPMG LLP
2001 M Street, NW
Washington, DC 20036

**AMERICAN RECOVERY AND REINVESTMENT ACT
MANAGEMENT LETTER**

November 13, 2009

CONFIDENTIAL

Office of the Inspector General,
U.S. Small Business Administration, and
Administrator of the SBA:

We were engaged by the Office of Inspector General (OIG) to perform supplemental audit services for the purpose of testing certain transactions and system enhancements related to the U.S. Small Business Administration's (SBA) implementation of the American Recovery and Reinvestment Act of 2009 (ARRA). The procedures were performed as part of an expanded scope of our fiscal year 2009 audit of SBA's consolidated financial statements. In planning and performing our audit procedures related to SBA's implementation of ARRA, we considered internal control aspects related to the implementation and operation of the ARRA programs that were in place as of September 30, 2009. However, our audit services under this contract modification did not include issuing an opinion on the effectiveness of the controls, and accordingly, we do not express our opinion on such controls.

During our audit, we noted a matter involving internal control concerning lack of review of outstanding Preferred Surety Bond (PSB) bid bonds. The comments and resulting recommendations, presented in the Exhibit, have been discussed with the appropriate members of management and are intended to improve internal control or result in other operating efficiencies.

We would be pleased to discuss these comments and resulting recommendations with you at any time.

This report is intended solely for the information and use of the OIG, SBA management, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

U.S. SMALL BUSINESS ADMINISTRATION
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LACK OF REVIEW OF OUTSTANDING PREFERRED SURETY BOND (PSB) BID BONDS

CONDITION:

During our testwork over the American Recovery and Reinvestment Act Surety Bond Guaranty (SBG) Program, we noted that one surety bid bond was erroneously approved and not canceled prior to our testwork. This surety bid bond was approved by a preferred surety company on July 7, 2009 through the Surety Bond Guaranty (SBG) System in the amount of \$93,380. However, when KPMG requested the supporting approval documentation from the surety company in mid-September, the surety company replied by stating that the bid bond was recorded in error and should be canceled. The surety company explained that the contractor did not complete SBA Form 994, *Application for Surety Bond Assistance*, and ultimately did not bid on the job. We noted the bid bond was canceled in the SBG system on September 28, 2009, which was subsequent to the identification of the error.

CRITERIA:

Standard Operating Procedure 50 45 2, *The Surety Bond Guaranty Program*, states:

“What Information Must the Surety and/or Contractor Complete in a Standard Application Package?”

SBA Form 994, *Application for Surety Bond Assistance*: This one-page form provides basic information regarding the contractor/principal and the surety; gives a brief description of the contract and the work that the contractor must perform thereunder; evidences the contractor’s request for SBG assistance; and contains various certifications attested to by the contractor’s signature. This form must be submitted with each application for a final bond guarantee. It also includes the disclosure authorization required by Section 1104(a) of the Right to Financial Privacy Act (12 U.S.C. 3404), which authorizes the surety, etc., to release information to SBA.”

Office of Management and Budget (OMB) Circular A-123, *Management’s Responsibility for Internal Control*, states:

“Management is responsible for developing and maintaining effective internal control. Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the agency’s ability to meet its objectives, would be prevented or detected in a timely manner.”

CAUSE:

Under the PSB Program, participating surety companies can issue, service, and monitor bonds without SBA’s prior approval. SBA does not have a process in place to ensure that aged outstanding PSB bid bond approvals are valid transactions.

EFFECT:

Under the PSB Program, there is increased risk that invalid approvals will be made that are not in compliance with SBA policies and procedures.

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RECOMMENDATIONS:

We recommend the Associate Administrator for the Office of Capital Access ensure the Director of the Office of Surety Bond Guaranties:

- 1) Continues to monitor preferred sureties to ensure it maintains all required supporting documentation, including a SBA Form 994, to support all bid bond approvals.
- 2) Develops and implements policies and procedures to monitor aged outstanding PSB bid bond approvals.

MANAGEMENT RESPONSE:

SBA management concurs with the finding and recommendations.