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### Opening Statement Congressman Todd R. Platts April 29, 2003

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As one of the 24 Chief Financial Officer Act (CFO Act) agencies, the Small Business Administration (SBA) has been required to produce agency-wide audited annual financial statements since fiscal year 1996, and has been required to produce audited financial statements with respect to its loan programs since fiscal year 1991. Since 1996, SBA has consistently received a clean opinion from their auditors on their agency-wide financial statements. However, recently SBA's auditors issued a disclaimer on SBA's fiscal year 2002 financial statements and chose to withdraw their clean opinions on SBA's financial statements for fiscal years 2001 and 2000. This turnaround occurred in part as the result of the findings described in the General Accounting Office (GAO) report, entitled *Small Business Administration: Accounting Anomalies and Limited Operational Data Make Results of Loan Sales Uncertain*.<sup>1</sup>

As part of this subcommittee's continuing oversight into the financial health of the CFO Act agencies, we have asked the General Accounting Office (GAO), representatives of the SBA, and SBA's independent auditors to come before us today to discuss the current status of the financial accounting situation at SBA. Our hearing today will address the findings of the GAO report, as well as look forward at the remediation efforts underway within SBA to rectify this situation.

Last year, at the request of Senator Christopher Bond, GAO conducted a broad review of SBA's loan asset sales program. GAO analyzed the way SBA accounted for five loan asset sales, disposing of a total of \$4.4 billion in disaster assistance home and business loans and regular business loans, from August 1999 through January 2002. GAO determined that SBA incorrectly calculated the accounting losses on the loan sales and lacked reliable financial data to determine the overall financial impact of the sales. SBA's accounting for the loan sales was flawed to such a degree that SBA was actually showing a profit on their disaster relief loans - a very unlikely scenario. In part, as a

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<sup>1</sup> GAO-03-87, January 2003.

result of the accounting inaccuracies uncovered by GAO, SBA's auditors, Cotton and Company, issued a disclaimer on SBA's financial statements for fiscal year 2002 and withdrew their clean audit opinions on SBA's financial statements for fiscal years 2001 and 2000. Furthermore, the Office of Management and Budget (OMB) reported as part of the President's Executive Branch Management Scorecard for 2002 that SBA actually deteriorated on its score for improving financial performance since last year. OMB's explanation of the score cited the challenges that SBA faces in accounting for its loan sales, meeting accounting performance standards, and measuring risk in its loan portfolio more accurately.

SBA's Chief Financial Officer and its Inspector General both generally agreed with the overall findings and recommendations in the GAO report. The Chief Financial Officer has contracted with a consulting firm to assist them in determining where they made their mistakes in accounting for the loan sales. The Inspector General's office is also working with Cotton and Company to determine the magnitude of the errors in SBA's financial statements for fiscal years 2001 and 2000.

The situation at SBA raises serious questions about the quality of the financial management of their loan asset sales. It also demonstrates a point that is consistently raised by GAO and OMB: sound financial management requires more than clean audit opinions.

I was gratified when I read an advanced copy of Deputy Inspector General McClintock's testimony that he candidly discusses how seriously flawed SBA's financial management systems are. If the systems were not so flawed perhaps SBA would have clean audit opinions today. SBA has the opportunity now to reevaluate their management of the loan asset sales and to move forward with solutions that will result in sustainable long-term improvements to their financial management.

Our witnesses today will help to shed light on the financial management situation at SBA. We are pleased to have Linda Calbom, who is a Director with the Financial Management and Assurance team at the General Accounting Office; Thomas Dumaresq, who is the Chief Financial Officer at SBA; Peter McClintock, who is the Deputy Inspector General at SBA; Charles Hayward, who worked on the SBA audit as a partner with Cotton and Company; and Bill Menth, who is a consultant that has been working on this situation with both Cotton and Company and SBA. I look forward to your testimonies.