UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON REGIONAL OFFICE
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FALLS CHURCH, VIRGINIA 22046

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Mr. Herbert T. Mills
Acting Assistant Administrator
   for Administration
U.S. Small Business Administration 2
1441 L Street, NW.
Washington, D.C. 20416

Dear Mr. Mills:

During the course of our audit of the Small Business
Administration's financial statements for fiscal year 1974,
certain matters came to our attention with respect to
internal controls and operational efficiency which were
not included in our report to the Congress. The enclosed
summary describes our observations and offers suggestions
for your consideration. We would like to acknowledge the
courtesy and assistance extended to us by your staff during
our audit.

Should you have any questions concerning our comments,
we will be pleased to discuss them with you.

Sincerely yours,

D. P. Sorando
Regional Manager

Enclosure

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Contents

Strengthen Data Controls
Over Source Documents

The system of internal control over loan processing would be improved by establishing data controls over all source documents. Procedures for controlling the flow of documents within an automated system should be designed to ensure that all input data is authorized, complete, and accurate. Normally, the following procedures are employed:

--Approval of source documents by authorized personnel,

--Establishment of data controls over source documents at or near the point of origin and maintenance of control throughout the processing cycle, and

--Reconciliation of predetermined data controls to similar totals accumulated during processing.

The Small Business Administration (SBA) should establish data controls over the following source documents used in its automated loan accounting system.

1. Loan Approval Document, SBA Form 135

The Loan Approval Document is used to create a master loan record in the automated system. SBA district offices mail Form 135s to the Washington central office but many do not establish batch controls over the documents submitted. As a result, documents may be lost in transit and not detected

soon thereafter, if at all. In addition, unauthorized documents could be submitted by mail and processed by the central office.

2. Modification or Administrative Action, SBA Form 327

A Modification or Administrative Action form is used to authorize a change to a master loan record in the automated system. SBA Form 327s are mailed to the Washington central office for computer processing. Batch controls are not established over the forms submitted. Accordingly, forms may be lost and/or unauthorized forms may be processed.

3. Journal Voucher, CO Form 274

A journal voucher is used to change monetary data on a master loan record. Data controls are not established over journal vouchers. Completed forms can be placed in the Accounting Operations Division's "IN" box, which is easily accessible in an open hallway. Therefore, unauthorized changes to master loan records could be easily processed under present procedures.

We recommend SBA establish predetermined batch control totals to ensure that only authorized transactions are accepted and that all data on the three forms are processed correctly. The totals should be established as close to the point of origin as practical; for example, Loan Approval Documents prepared in district offices should be batched

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prior to mailing them to the Washington central office.
In addition, the document used to record the batch control
totals should evidence approval by a responsible official.
The Washington data control group should review the batch
control sheets for evidence of proper authorization.

An approach which would improve internal control as
as operational efficiency is discussed under "Automate
ce Data Entry."

Use Procedures for Processing Direct Disbursements

SBA Form 191, Request for Loan Check, and Form 192,
Notification of Loan Closing, are each prepared whenever
loan funds are disbursed to a borrower. Form 191 is pre-
pared by the loan officer prior to the loan closing in order
that a check will be on hand at the time of closing. When
check is accepted by the borrower, a Form 192 is prepared,
evidencing the disbursement of funds.

We believe a procedure similar to the following would
improve control over direct loan disbursements: produce
a punched card, or an OCR form, by computer at the time a
Form 191 is processed. The card, or form, could then be
re-entered into processing after the borrower signs it,
acknowledging receipt of the check. Such a procedure
would then ensure that no funds would be disbursed prior
to processing Forms 135 and 191.

Transfer Administrative Accounting
Processing to Denver

According to existing procedures under the Administrative Accounting System all purchase orders and invoices are processed through the Denver fiscal office. Such procedures require that Denver personnel prepare ADP coding documents (CO Form 249) from the source documents. Denver personnel also prepare Form 1166 for commercial payments and Form 789 for Government payments. The above forms are batched and mailed to the Washington central office for keypunching and processing. Since source documents are not maintained in Washington, errors in the above processing are either resolved by the Washington central office acting alone or by telephone with the Denver fiscal office.

Preferred procedures require that a positive control be established at the source of all processing rejects and that responsibility be assigned for their research, correction, and timely resubmission. As a practical matter it is often more efficient to require that all rejects resulting from the data conversion process (e.g., key punching) be corrected and resubmitted by an ADP data control group or a similar function. However, it should be a strict rule that all rejects other than keypunching errors be returned to the initiator of the transaction.

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We note that this is not always the case at SBA. It
was pointed out that in the interest of saving time,
telephone calls to Denver have been employed to research
and correct certain errors. This results in split respon-
sibility and a loss of control over rejects.

We believe it would be preferable to perform all these
functions in Denver and thereby eliminate the need for
mailing the ADP coding documents, making corrections by
telephone and splitting responsibilities. It would appear
feasible to perform the coding and keypunching in Denver,
and then enter the cards for processing via the existing
computer terminal facility.

OPERATIONAL·EFFICIENCY

Consolidate Denver Loan Collection
Master File and Washington Loan
Accounting Master File

Both the Loan Accounting Master File and the Denver
Loan Collection File are physically maintained at the
Washington computer facility. A substantial portion of
the Denver Loan Collection File is also maintained on the
Loan Accounting Master File. This duplication results in
increased computer processing and storage costs. We
believe consolidation of these two files would result in
a cost savings.

Revise Cutoff Procedures

The Data Management Division's monthend cutoff procedure
allows for acceptance of documents up to the third business
day after the last day of each month. This procedure was
established to ensure that transactions would be processed
in the proper month. Additional manual effort is required,
however, because of this cutoff procedure.

For example, the cash disbursement journal must be
prepared manually because a report of cash receipts and
disbursements must be submitted to the U.S. Treasury by
the third business day after the end of the month. A similar
computer produced journal is not available in time for use
in preparing the report to the U.S. Treasury because of the

monthend cutoff procedure. Except for fiscal yearend, we question the need for strict time matching of transactions at the expense of more efficient reporting. We believe monthend computer processing should begin immediately after the close of business on the last day of each month except for the yearend.

Automate Source Data Entry

Current procedures call for the mailing of source documents to the Washington central office or to the Denver fiscal office from SBA field offices. After receipt, the documents are optically scanned or key-entered into machine readable form for processing.

We believe SBA should study the feasibility of using computer terminals to input loan transactions directly into data processing. The use of terminals would permit the validation of input transactions as the data is being key-entered. Control totals could be accumulated during the data entry process and rejected transactions could be identified and resolved immediately by field office personnel. Certain master file data could be made available for inquiry during normal business hours and transactions accumulated during the day could be posted to master files at night.

We believe source data entry would increase operational efficiency and improve internal control over administrative

accounting as well as loan accounting. If SBA field offices
were to enter obligation and disbursement data from source
documents (e.g., purchase orders, invoices, receiving
reports) directly into processing via computer terminals,
the transcription of data to coding sheets (CO Form 249),
the mailing of coding sheets and the telephone conversa-
tions to reverse errors would be eliminated. More timely
and accurate data processsing could be achieved.