

U.S. Department of Labor

Office of Inspector General—Office of Audit

SINGLE AUDIT QUALITY CONTROL REVIEW



QUALITY CONTROL REVIEW: SINGLE AUDIT OF SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION FOR THE YEAR ENDED JUNE 30, 2008

Date Issued: June 7, 2010
Report Number: 24-10-003-03-315



June 7, 2010

Assistant Inspector General's Report

Mr. Doug Reeves
Director of Fiscal Affairs
South Carolina Employment Security Commission
1550 Gadsden Street
Columbia, SC 29202

Dear Mr. Reeves:

The purpose of this report is to formally advise you of the results of a Quality Control Review (QCR) the U.S. Department of Labor (DOL), Office of Inspector General (OIG) conducted of the following audit completed by Scott McElveen, L.L.P. (the Firm), under the Federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133 (A-133):

Single Audit of the South Carolina Employment Security Commission
(SC ESC) for the year ended June 30, 2008

The objectives of the QCR were to determine whether (1) the audit was conducted in accordance with applicable standards and met the single audit requirements; (2) any follow-up work is needed, and (3) there are any issues that may require management's attention.

Our review included the following major programs:

Program	Catalog of Federal Domestic Assistance (CFDA) Number
Employment Service Cluster	17.207 (Employment Service) 17.801 (Disabled Veterans Outreach Program) (DVOP) 17.804 (Local Veterans Employment Representative (LVER) Program)
Unemployment Insurance (UI)	17.225
Trade Adjustment Assistance (TAA) - Workers	17.245

We determined that the audit work performed did not meet certain requirements of the Single Audit Act and A-133. Additional work is required to bring this audit into compliance with certain requirements of the Single Audit Act. Specifically, the Firm needs to document its understanding of the five components of internal control to assess the risks of material noncompliance for each major program and perform any additional testing deemed necessary. Furthermore, the Firm should prepare audit documentation that provides a clear understanding of the TAA program as it pertains to the SC ESC. We also noted an issue requiring the Firm to separately identify a cluster in the Schedule of Expenditures of Federal Awards (SEFA) in the format required by A-133.

The Firm agreed to address the noted deficiencies to improve the quality of the audit. Details on the results of our review are provided in the Enclosure.

Sincerely,



Elliot P. Lewis
Assistant Inspector General
for Audit

Enclosure

cc: Judith A. Fisher, Director, Division of Policy, Review, and Resolution,
Employment and Training Administration

Donald J. Mobley, Audit Partner, Scott McElveen, L.L.P.

Enclosure

**Quality Control Review:
Single Audit of the South Carolina Employment Security Commission,
Financial Statements, Schedule of Expenditures of Federal Awards, Reports
Required by Government Auditing Standards and
OMB Circular A-133 for Year Ended June 30, 2008
(24-10-003-03-315)**

Introduction

The Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996, created a single organization-wide financial and compliance audit for state and local governments, colleges, universities, and not-for-profit organizations that expend Federal funds equal to or greater than \$300,000 in any fiscal year (\$500,000 for fiscal years ending after December 31, 2003).

On March 31, 2009, the Firm issued a single audit report of the SC ESC financial statements, SEFA, and reports required by Government Auditing Standards (GAS) and OMB A-133 for the year ended June 30, 2008.

We performed a QCR of the above referenced audit. Our review included the following major programs:

Program	CFDA Number
Employment Service Cluster	17.207 (Employment Service) 17.801 (DVOP) 17.804 (LVER Program)
UI	17.225
TAA - Workers	17.245

Objectives

The objectives of the QCR were to determine whether (1) the audit was conducted in accordance with applicable standards and met the single audit requirements; (2) any follow-up work is needed; and (3) there are any issues that may require management’s attention.

Results

We determined that the audit work performed did not meet certain requirements of the Single Audit Act and A-133. Additional work is required to bring this audit into compliance with certain requirements of the Single Audit Act. Specifically, the Firm needs to document its understanding of the five components of internal control to assess the risks of material noncompliance for each major program and perform any

additional testing deemed necessary. Furthermore, the Firm should prepare audit documentation that provides a clear understanding of the TAA program as it pertains to the SC ESC. We also noted an issue requiring the Firm to separately identify a cluster in the SEFA in the format required by A-133.

Internal Control and Compliance for Major Programs

1. The Firm did not sufficiently demonstrate the planning and testing of internal controls for each major program.

Although the Firm performed compliance testing, it did not demonstrate an understanding of the five components of internal control necessary to assess the risks of material noncompliance for each major program. The Firm performed required compliance testing related to two operating segments — program-related administration and program-related benefit payments — without considering the need to review the five elements of internal controls as required.

The American Institute of Certified Public Accountants (AICPA) Audit Guide, GAS, and A-133 Audits, Chapter 9.09, states:

When considering internal control over compliance, the auditor should obtain an understanding of the five elements of internal control sufficient to assess the risks of material noncompliance with each direct and material compliance requirement for each major program.

Chapter 9.11 states, in part:

...the auditor should perform procedures to obtain an understanding of internal control over compliance for federal programs that is sufficient to plan the audit to support a low assessed level of control risk for major programs. In order to do this, an understanding is needed of which of the 14 types of compliance requirements identified in the OMB Circular A-133 Compliance Supplement have a direct and material effect on each major program.

Chapter 9.31 provides that internal control testing and compliance testing may be accomplished concurrently through performance of a test of internal controls and a test of compliance on the same transaction (a dual-purpose test).

The Firm said due to an oversight, it did not demonstrate an understanding of the five components of internal control necessary to sufficiently assess the risks of material noncompliance for each major program. However, the Firm felt that it carried out compliance testing sufficient to give an opinion on each major program.

Without obtaining an adequate understanding of internal controls and performing the necessary tests of controls, there is no assurance that management designed the internal controls to provide reasonable assurance that unauthorized acquisition, use, or disposition of assets will be prevented, or timely detected and corrected. As a result, there was less assurance that the dual-purpose testing performed was sufficient to render an opinion on compliance for each major program.

Quality Control

2. The Firm did not adequately document an understanding of the TAA program within the SC ESC.

Certain audit documentation pertaining to at least \$34.4 million of the TAA funds did not agree with other audit documentation, the SEFA, or the Data Collection Form submitted to the Federal Audit Clearinghouse. The SEFA and Data Collection Form reported these TAA funds as being received directly from DOL. However, other audit documentation referred to the funds as being received by the South Carolina Department of Commerce (SC DOC). According to the Firm, the SC ESC Director of Finance stated that prior to February 2008, the TAA program at the SC ESC was funded directly by DOL. Beginning in February 2008, the SC DOC received the training portion of TAA program, which it forwarded to Local Workforce Investment Boards (LWIB). No transfer of funds occurred between SC ESC and SC DOC. However, the SC ESC did contract with the LWIBs to provide training. The Firm expressed an understanding of the TAA program as described above but did not document its understanding.

GAS, paragraphs 4.22 through 4.24, provide that audit documentation for financial audits performed in accordance with GAS should contain sufficient information to enable an experienced auditor who has had no previous connection with the audit to ascertain from the audit documentation the evidence that supports the auditors' significant judgments and conclusions.

The Firm attributed the inconsistent audit documentation to an oversight and agreed that the documentation should have been presented better.

Because the audit documentation for the TAA program was not prepared sufficiently, further explanations were needed to support the auditor's opinions and conclusions. Audit documentation should be able to stand alone without additional information being necessary for the reviewer to reach the same conclusions. Reviewers should be able to ascertain the work performed, results, and conclusions without having to ask for further clarification.

Single Audit Requirements

3. A cluster was not properly presented in the SEFA.

The Firm did not ensure that the auditee complied with reporting requirements to prepare the SEFA in the format required by A-133. CFDA 17.207, 17.801, and 17.804 should have been presented as a cluster but instead were reported individually. The Firm's auditing procedures included steps to ensure that auditees were complying with A-133 reporting requirements but the steps did not include checking for proper cluster presentation.

A-133, Subpart C—Auditee Responsibilities, Section 310(b), Financial statements, Schedule of expenditures of Federal awards, states, in part:

. . . At a minimum, the schedule shall: (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs.

The Firm told us it is aware of the cluster reporting requirement and attributed its acceptance of the grantee-prepared SEFA to an oversight. The Firm agreed that the clustered CFDA should have been presented together in the SEFA. When the Federal programs are not presented in a cluster, it does not provide a uniform report presentation or allow users to more efficiently and effectively use the data contained in the reports.

Recommendations

We recommend the Firm:

1. Document its understanding of the five components of internal control to assess the risks of material noncompliance for each major program and perform any additional internal control testing deemed necessary.
2. Add audit documentation that provides a clear understanding of SC ESC's TAA program.
3. Include in its audit procedures steps to ensure auditees separately present clusters in the SEFA in the format required by A-133.

Firm's Response

The Firm agreed and acknowledged that it did not sufficiently demonstrate the planning and testing of internal controls for each major program in accordance with the five elements of the Committee of Sponsoring Organizations of the Treadway Commission. The Firm responded that it thoroughly documented the internal controls in place over

financial reporting and believed it sufficiently tested compliance over the major programs. The Firm said it will document 2008 internal controls over major programs by inquiring of SC ESC management and verifying that the controls in place were the same in 2009 and 2008. After verifying this, the Firm stated that it will determine if further control testing and compliance testing are necessary. The Firm agreed to provide additional documentation that clearly explains the TAA program within the SC ESC. Regarding clustering, the Firm used the Practitioners Publishing Company (PPC) Single Audit Reporting Checklist which did not address clusters. The Firm agreed to take the steps necessary to identify all clusters in the SEFA. The Firm will add steps to its auditing procedures that ensure clusters are considered in the reporting process and are properly identified in the SEFA. The Firm will also ensure that there is proper linkage between the audit documentation and the SEFA. The Firm stated that all corrective actions above will be completed and documented by August 31, 2010. See Appendix D for the Firm's complete response to our draft report.

OIG's Conclusion

The Firm concurred with all findings. Based upon the Firm's response, the recommendations are resolved and can be closed when we are provided evidence the corrective actions described in the Firm's response have been implemented.

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Appendices

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Background

The Single Audit Act of 1984 established consistent and uniform entity-wide audit requirements for state and local governments receiving Federal financial assistance. The single audit is the primary mechanism used by Federal agencies to ensure accountability for Federal awards. Audits performed under the Single Audit Act are intended to satisfy all Federal agencies providing assistance to the entity. The act was amended in 1996 by Public Law 104-156, raising the threshold for single audit to \$300,000 in Federal assistance. The June 27, 2003, revision to A-133 raised this threshold to \$500,000 for fiscal years ending after December 31, 2003.

QCRs are performed to provide evidence of the reliability of single audits to the auditors of Federal agency financial statements, such as those required by the Chief Financial Officers Act, those responsible for the programs, and others. We performed a QCR of the single audit of the SC ESC financial statements, SEFA, and reports required by GAS and OMB Circular A-133 for the year ended June 30, 2008, performed by the Firm.

The SC ESC was created by Section 41-29-10 of the South Carolina Code of Laws to administer the South Carolina Employment Security Law. This law provides for the payment of UI benefits, the collection of the unemployment tax from subject employers, and the operation of a statewide employment service. The administrative costs of the SC ESC are paid from grants primarily from DOL. The UI Program collects taxes from employers covered by the law, and pays out unemployment benefits to unemployed workers under both state and Federal laws. The SC ESC's mission is to provide quality, customer-driven workforce services that promote financial stability and economic growth. The SC ESC provides both UI and job development and training for state residents. For the year ending June 30, 2008, the SC ESC reported expending \$91.9 million in Federal funds, which with the exception of \$6,738, was attributable to DOL.

Appendix B

Objectives, Scope, Methodology and Criteria

Objectives

Our objectives were to determine whether:

1. The audit was conducted in accordance with applicable standards and met the single audit requirements;
2. any follow-up work is needed; and
3. there are any issues that may require management’s attention.

Scope

We performed a QCR of the single audit of the SC ESC, Financial Statements, SEFA, Reports Required by GAS and OMB Circular A-133 for Year Ended June 30, 2008, at the offices of Scott McElveen, L.L.P., located at 1441 Main Street, Suite 800, Columbia, South Carolina, from February 1, 2010, to February 4, 2010.

Our review included the following major programs:

Program	CFDA Number
Employment Service Cluster	17.207 (Employment Service) 17.801 (DVOP) 17.804 (LVER Program)
UI	17.225
TAA - Workers	17.245

Methodology

Using the President’s Council on Integrity and Efficiency Uniform QCR Guide for A-133 Audits, we reviewed audit documentation and held discussions with the Firm’s partners and audit manager to accomplish the required steps. The Guide was developed to test for compliance with GAS general and fieldwork standards and A-133 requirements.

Specifically, we reviewed:

- Competence
- Independence
- Professional Judgment
- Quality Control
- Planning and Supervision
- Management Representations

Acronyms and Abbreviations

A-133	Office of Management and Budget Circular A-133
AICPA	American Institute of Certified Public Accountants
CFDA	Catalog of Federal Domestic Assistance
DOL	Department of Labor
DVOP	Disabled Veterans Outreach Program
Firm	Scott McElveen, L.L.P.
GAS	Government Auditing Standards
LVER	Local Veterans Employment Representative
LWIB	Local Workforce Investment Board
OIG	Office of Inspector General
OMB	Office of Management and Budget
PPC	Practitioners Publishing Company
QCR	Quality Control Review
SEFA	Schedule of Expenditures of Federal Awards
SC DOC	South Carolina Department of Commerce
SC ESC	South Carolina Employment Security Commission
TAA	Trade Adjustment Assistance
UI	Unemployment Insurance

Independent Public Accountant Response to Draft Report

INSPIRED SOLUTIONS

SCOTT  MCELVEEN LLP

May 24, 2010

Mr. Elliott P. Lewis
Assistant Inspector General for Audit
U. S. Department of Labor
Washington, DC 20210

Dear Mr. Lewis:

We have the following responses to your findings relating to your quality control review of the June 30, 2008 quality control review of the Single Audit for the South Carolina Employment Security Commission:

Finding #1: The Firm did not sufficiently demonstrate the planning and testing of internal controls for each major program in accordance with the 5 elements of COSO.

Firm's Response to Finding #1: We agree with the finding and acknowledge that we did not sufficiently demonstrate the planning and testing of internal controls for each major program in accordance with the 5 elements of COSO. Although we did document thoroughly the internal controls in place over financial reporting and believe that we sufficiently tested compliance over major programs, we do acknowledge that we did not use the 5 elements of the COSO framework to document our understanding of internal controls for the major programs for the South Carolina Employment Security Commission ("SCESC") single audit for the year ended June 30, 2008. Subsequent to the Quality Control Review ("QCR"), we performed our 2009 SCESC single audit using the 5 elements of COSO to document internal controls. In response to this finding, the United States Department of Labor Inspector General's Office ("OIG") has asked us to document 2008 internal controls over major programs by inquiring of SCESC management and verifying that the controls in place were the same in 2009 and 2008. After verifying this, we will determine if further control testing and compliance testing are necessary.

Finding #2: The Firm did not adequately document an understanding of the TAA program within the SCESC.

Firm's Response to Finding #2: Although significant compliance testing was performed relating to the TAA program, we agree with the finding and will provide additional audit documentation that clearly explains the TAA program within the SCESC.

CERTIFIED PUBLIC ACCOUNTANTS

Member: AICPA, SCACPA, SEC Practice Section
An Independent Member of the BDO Seidman Alliance

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Columbia, South Carolina 29202 www.scottmcelveen.com

Finding #3: A cluster was not properly presented in the SEFA.

Firm's Response to Finding #3: We agree with your finding and acknowledge that we did not specifically identify CFDA's 17.207, 17.801, and 17.804 as a cluster in the Schedule of Federal Awards ("SEFA").

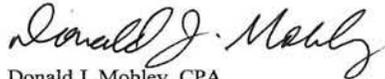
However, we did perform our auditing procedures and provided documentation in our work papers to reflect the programs as part of a cluster. Our Firm uses the PPC audit work programs for our single audits and as part of our Firm's quality control. For the SCESC single audit for the year ended June 30, 2008, we completed PPC's Single Audit Reporting Checklist which contained no steps related to a cluster or any mention of the word "cluster."

In future audits we will take necessary steps to identify all clusters in the SEFA. We will also add steps in our auditing procedures to ensure that clusters are considered in the reporting process and properly identified and that there is proper linkage between the audit work papers and the SEFA.

We will have the corrective action on the above comments completed and documented by August 31, 2010.

Please let me know if we can provide you with further information.

Sincerely,



Donald J. Mobley, CPA
Partner