SINGLE AUDIT QUALITY CONTROL REVIEW

RECOVERY ACT: QUALITY CONTROL REVIEW
SINGLE AUDIT OF UPPER RIO GRANDE
WORKFORCE DEVELOPMENT BOARD, INC. FOR
THE YEAR ENDED JUNE 30, 2009

Date Issued: September 16, 2010
Report Number: 18-10-007-03-390
Assistant Inspector General's Report

Mr. Lorenzo Reyes
Chief Executive Officer
Workforce Solutions Upper Rio Grande
221 N. Kansas, Suite 1000
El Paso, TX 79901

Dear Mr. Reyes:

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 White + Samaniego + Campbell, L.L.P. (the Firm), under the Federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133 (A-133):


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

<table>
<thead>
<tr>
<th>Major Program</th>
<th>Catalog of Federal Domestic Assistance (CFDA) Number</th>
<th>DOL Funds Expended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment Service (ES)</td>
<td>17.207</td>
<td>$133,654</td>
</tr>
<tr>
<td>American Recovery and Reinvestment Act (ARRA) – ES</td>
<td>17.207</td>
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<td>Trade Adjustment Assistance (TAA)</td>
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<td></td>
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</tr>
<tr>
<td>Total DOL Funds Expended</td>
<td></td>
<td>$16,616,761</td>
</tr>
</tbody>
</table>

Since our review included ARRA funds, we are required by ARRA to post this report on our website www.oig.dol.gov and link to the Recovery Accountability and Transparency Board’s website www.recovery.gov.
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.

The audit work performed by the Firm 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 update audit documentation to add the following: reasons compliance requirements did not apply to major programs, sampling methodologies used for internal controls and compliance requirements tested, dual-purpose testing used and separate conclusions on the internal control and compliance testing results, and auditors’ judgments made on the significance of exceptions. Furthermore, the Firm needs to submit a revised data-collection form to the Federal Audit Clearinghouse to accurately identify the WIA cluster as major programs, properly spell the auditee’s name, and properly record the ARRA prefix.

We also noted issues requiring management’s attention to improve the quality of future audits. Specifically, the Firm needs to increase supervision; implement its established quality control policies; document auditor judgments on noted exceptions; provide additional training, if necessary, for Firm personnel responsible for reporting quality control; and inform the auditee of the need to accurately complete the Schedule of Expenditure of Federal Awards (SEFA) and data-collection form.

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: Ms. Roxie Samaniego, Partner, White + Samaniego + Campbell L.L.P.

       Mr. Martin Bombach, Acting Chief Financial Officer, Workforce Solutions Upper Rio Grande

       Ms. Judith A. Fisher, Director, Division of Policy, Review, and Resolution, Employment and Training Administration
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 November 5, 2009, the Firm issued a single audit report of the URGWDB financial statements, SEFA, and reports required by Government Auditing Standards (GAS) and A-133 for the year ended June 30, 2009.

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

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Since our review included ARRA funds, we are required by ARRA to post this report on our website www.oig.dol.gov and link to the Board’s website www.recovery.gov.

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

The audit work performed by the Firm 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 update audit documentation to add the following: reasons compliance requirements did not apply to major programs, sampling methodologies used for internal controls and compliance requirements tested, utilization of dual purpose testing and separate conclusions made on the internal control and compliance testing results, and auditors’ judgments made on the significance of exceptions. Furthermore, the Firm needs to submit a revised data-collection form to the Federal Audit Clearinghouse to accurately identify the WIA cluster as major programs, properly spell the auditee’s name, and properly record the ARRA prefix.

We also noted issues requiring management’s attention to improve the quality of future audits. Specifically, the Firm needs to increase supervision; implement its established quality control policies; document auditor judgments on noted exceptions; provide additional training, if necessary, for Firm personnel responsible for reporting quality control; and inform the auditee of the need to accurately complete the SEFA and data-collection form.

Audit Documentation

Audit documentation lacked (1) reasons why compliance requirements did not apply to major programs, (2) sampling methodologies used for internal controls and compliance requirements tested, (3) conclusions made regarding the inapplicability of nine compliance requirements, as follows:

1. The Firm did not document the reasons why compliance requirements did not apply to major programs.

Audit Documentation did not include the conclusions made regarding the inapplicability of nine compliance requirements, as follows:

- 2 of 14 compliance requirements (cash management and period of availability of Federal funds) related to the ES major program.
- 3 of 14 compliance requirements (cash management, period of availability of Federal funds, and program income) related to the TAA major program.
- 4 of 14 compliance requirements (cash management, matching, period of availability of Federal funds, and program income) related to the WIA cluster major program.
Auditors must determine whether each of the 14 compliance requirements applies to the major programs audited. American Institute of Certified Public Accountants (AICPA) Audit Guide, GAS, and A-133 Audits (Audit Guide), Paragraph 10.16, states:

In making a determination not to test a compliance requirement identified as applicable to a particular program, the auditor should conclude, and document such conclusion, either that the requirement does not apply to the particular auditee or that noncompliance with the requirements could not have a direct and material effect on a major program.

We determined that the nine compliance requirements noted above did not apply to the major programs audited because the auditee either had no activity to that type of compliance requirement or the activity did not have a direct and material effect on them. Regardless of whether the compliance requirements apply, the auditors should document their determination regarding applicability. Without properly documenting the applicability of compliance requirements, Federal agencies and others cannot rely on the internal control assurances and compliance opinion in the audit report related to Federal awards.

2. The Firm did not document sampling methodologies used for internal controls and compliance requirements tested.

Audit documentation did not include the sampling methodologies used to perform the internal control and compliance tests for the major programs. AICPA Audit Guide, Paragraph 2.16, states “auditors should document significant decisions affecting the audit objectives, scope, and methodology, findings, conclusions, and recommendations resulting from professional judgment.” Under AICPA Codification of Statements on Auditing Standards — AU, Section 339.03, and GAS, Paragraph 4.19, auditors must prepare audit documentation in connection with each audit in sufficient detail to provide a clear understanding of the work performed (including the nature, timing, extent, and results of audit procedures performed), the audit evidence obtained and its source, and the conclusions reached. The audit documentation provided by the Firm did not contain information on the sample designs, such as how the samples were selected (random vs. judgmental), sizes of the universes, and whether results could be projected. We had uncertainty as to the adequacy of the Firm’s sample sizes given the lack of documented sampling methodologies. However, we were satisfied with supplemental information provided by the Firm which represented that the samples were haphazardly selected using universes and that results were not projected.
3. The Firm did not document its conclusions on dual-purpose testing utilization.

Audit documentation did not include that dual-purpose testing was utilized and did not separately conclude on the internal control and compliance requirements. AICPA Audit Guide, Paragraph 10.31, states:

In some instances, the auditor may be able to perform compliance testing for major programs concurrently with tests of controls (that is, dual-purpose testing). However, such internal control and compliance tests should be distinguished from each other so that there is clear documentation to support both controls and compliance testing and the separate conclusions reached on both the internal controls aspects of the population tested and also the related compliance.

Without sufficient documentation of the auditors’ understanding and testing of internal controls, the audit report’s users have no basis for relying on the audit report’s assurance that internal controls were in place and operating effectively.

4. The Firm did not document auditor judgments on the significance of exceptions.

Audit documentation did not include auditor judgments on the significance of exceptions that were noted in expenditure and eligibility test work. Expenditures were not marked paid in 9 instances within the TAA, and 21 instances within the WIA cluster major programs. Audit documentation did not address why these exceptions were not considered a material weakness or significant deficiency.

Also, TAA eligibility test work initially noted:

- 7 instances of missing support services needing assessment
- 8 instances of missing proof of eligibility
- 1 instance of missing review of training opportunity form
- 5 instances of missing WIA fraud & abuse form
- 1 instance of missing signature on assessment service plan
- 2 instances of missing release of confidential information
- 1 instance of missing proof of job search
- 3 instances of missing objective assessment forms
- 3 instances of forms without signatures

GAS, Paragraph 4.19(c), provides 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.
Based upon our concerns, the Firm prepared supplemental information to show that the TAA eligibility test work exceptions were resolved. Without sufficient audit documentation, there is no assurance that the audit work was performed in accordance with the requirements of A-133, its related Compliance Supplement, GAS, and the AICPA auditing standards, and independent reviewers cannot understand the auditors' conclusions and judgments regarding the work performed.

The most recent peer review's letter of comment noted similar instances in which performance of procedures that were in the audit programs were not documented. Through discussions with Firm personnel, the peer reviewers were able to substantiate that the undocumented procedures were performed. To address the peer reviewers' concerns, the Firm established quality control policies to ensure that when a partner performs an engagement, a concurring partner reviews and approves the audit reports, financial statements, and audit documentation before they are provided to clients. Policies were also established to ensure staff sign off only on steps that were actually performed. Furthermore, every audit document was to be reviewed by the audit supervisor or a partner to verify that all the audit procedures were actually performed. In addition, the Firm was to have continuous staff trainings to highlight the importance of adhering to professional standards regarding documentation of engagement and audit procedures.

The Firm needs to update its documentation, increase supervisory involvement, and implement its established quality control policies because preparers of audit documentation are unaware of the importance of documentation requirements. The lack of auditor judgments on noted irregularities affects the supportability of the audit and ultimately its quality.

**Single Audit Reporting Requirements**

We found areas of inconsistency regarding the Firm’s ensuring auditee compliance with single audit reporting requirements. Single audit reporting requirements were not met because the individual WIA programs were not presented in a cluster on the SEFA; and all WIA cluster programs were not identified as major programs, the auditee's name was misspelled, and the prefix ARRA was misplaced on the data-collection form.

5. **The Firm did not ensure that the auditee complied with reporting requirements to prepare the SEFA in the format required by A-133.**

The WIA cluster should have been presented as a cluster but instead the programs were reported individually.
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 was aware of the cluster reporting requirement and attributed its acceptance of the grantee-prepared SEFA to an oversight. The Firm agreed that the clustered CFDAs should have been presented together in the SEFA. When Federal programs are not properly presented in clusters, it does not provide for a uniform audit report presentation which may prevent users from effectively using the data contained in the audit reports.

6. The Firm did not ensure that the auditee complied with reporting requirements to prepare the data-collection in the format required by A-133.

The data-collection form submitted to the Federal Audit Clearinghouse was incorrectly completed because all WIA cluster programs were not identified as major programs, the auditee’s name was misspelled, and the ARRA prefix was misplaced.

A-133, Section 320, requires that the data-collection form include the name of each Federal program as well as identify each major program and list individual programs within a cluster. The information on the data-collection form, in its entirety, should be accurate and complete. Title 2, Code of Federal Regulations, Part 176.210, requires inclusion of the ARRA prefix as the first characters in Item 9d of Part III on the data-collection form.

While URGWDB shares in the responsibility for accurate reporting because it prepared the SEFA and data-collection form, the Firm’s reviews of the SEFA and data-collection form should have been detailed enough to identify the inaccuracies contained within each. As a result of these reporting inaccuracies, Federal users and the public cannot rely on the Federal Audit Clearinghouse database to produce accurate results for this grantee when they are searching the Clearinghouse’s website.
Recommendations

We recommend the Firm:

1. Implement review procedures and update audit documentation to show the:
   a. reasons a compliance requirement does not apply to a major program.
   b. sampling methodologies used for all compliance requirements tested.
   c. utilization of dual-purpose testing and separate conclusions on the internal control and compliance testing results.
   d. auditor judgments for noted exceptions and provide a clear understanding of the significance of exceptions noted during testing.

2. Emphasize the importance of clear and concise audit documentation through increased supervisory involvement.

3. Strengthen review procedures over the SEFA and data-collection form and submit a revised data-collection form to the Federal Audit Clearinghouse to accurately show the WIA cluster as major programs, auditee’s name, and the ARRA prefix.

4. Inform the auditee of the need to accurately complete the SEFA and data-collection form.

5. Implement established quality control policies; document auditor judgments on noted exceptions; and provide additional training, if necessary, for those responsible for audit report quality control.

Firm’s Response

The Firm agreed with the findings and acknowledged the need to implement and update audit documentation to adequately address the recommendations.

In future audits, the Firm will take the steps necessary to identify all clusters in the SEFA and add steps in its auditing procedures to ensure that clusters are considered in the reporting process and properly identified. In addition, the Firm will strengthen review procedures over the SEFA and inform the URWWDB of the need to accurately complete the SEFA.

Furthermore, the Firm will inform the URWWDB of the need to accurately complete the data-collection form and submit a revised data-collection form to the Federal Audit Clearinghouse to address the reported findings on this matter. In future audits, the Firm
will establish better review procedures of the audit product and provide additional training if necessary, for those responsible for audit report quality.

Since the issuance of the report, the Firm has added another audit partner and as a result, will have two audit partners involved in supervision and the review process on all audits. See Appendix D for the Firm’s complete response to our draft report.
Appendices
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 URGWDB financial statements, SEFA, and reports required by GAS and A-133 for the year ended June 30, 2009, performed by the Firm.

URGWDB is a public non-profit organization registered in the State of Texas. URGWDB’s mission is to promote charitable and educational services by providing special services to disadvantaged, untrained, displaced and under-trained workers within the Upper Rio Grande Workforce Development Area (the Area), which includes the counties of Brewster, Culberson, El Paso, Hudspeth, Jeff Davis, and Presidio, Texas.

URGWDB serves as a single point of contact for local businesses to communicate their skill needs and influence the direction of all workforce development programs in the Area. URGWDB is responsible for developing a local plan that is responsive to the goals, objectives, and performance standards established by the Governor of the State of Texas; and addresses the workforce development needs of the Area. In addition, URGWDB is responsible for targeting services to meet local needs in the Area, including the identification of industries and employers likely to employ workers who complete job-training programs. URGWDB seeks to ensure that the workforce development system, including the educational system, has the flexibility to meet the needs of local businesses. URGWDB is also responsible for the monitoring and evaluation of the effectiveness of the career development centers, State agencies, and other contractors providing workforce training and services, to ensure that performance is consistent with State and local goals and objectives.

For the year ended June 30, 2009, the URGWDB expended about $39.3 million in total Federal awards and $16.6 million in DOL awards, of which $.9 million was attributable to ARRA.
ARRA was signed into law on February 17, 2009. The stated purposes of the ARRA are to:

- preserve and create jobs and promote economic recovery;
- assist those most impacted by the recession;
- provide investments needed to increase economic efficiency by spurring technological advances in science and health;
- invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and
- stabilize state and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

ARRA requires agencies to implement an unprecedented level of transparency and accountability to ensure the public can see where and how their tax dollars are being spent. The Recovery Accountability and Transparency Board, was established by ARRA, Congress, and the Office of Management and Budget to oversee and monitor implementation of ARRA through periodic reporting on the use and expenditure of funds. We are required by ARRA, Title XV Accountability and Transparency, Subtitle A – Transparency and Oversight Requirements, Section 1514 Inspector General Reviews, to post this report on our website www.oig.dol.gov and link to the Recovery Accountability and Transparency Board’s website www.recovery.gov.
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 Firm’s single audit of the URGWDB, Financial Statements, SEFA, Reports Required by GAS and A-133 for Year Ended June 30, 2009. We performed our work at the offices of the Firm at 416 North Stanton, Suite 600, El Paso, Texas.

Our review included the following DOL major programs:

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<th>Major Program</th>
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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 auditors 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
- Litigation, Claims and Assessments
- Possible Fraud or Illegal Acts
- Determination of Major Programs
- Schedule of Expenditures of Federal Awards
- Audit Follow up
- Reporting
- Internal Control Over Major Programs
- Data-Collection Form

We also reviewed the Firm’s peer review applicable to the period of the audit.

**Criteria**

A-133

American Recovery and Reinvestment Act

AICPA Audit Guide, Government Auditing Standards and Circular A-133 Audits

AICPA Codification of Auditing Standards

Code of Federal Regulations

Government Auditing Standards

Guidance on Generally Accepted Government Auditing Standards Requirements for Continuing Professional Education

Single Audit Act of 1984

Single Audit Act Amendments of 1996
<table>
<thead>
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<th>Acronyms and Abbreviations</th>
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<td>A-133 Office of Management and Budget Circular A-133</td>
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<tr>
<td>AICPA American Institute of Certified Public Accountants</td>
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<td>ARRA American Recovery and Reinvestment Act</td>
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<td>Audit Guide American Institute of Certified Public Accountants Audit Guide, GAS, and A-133 Audits</td>
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<td>CFDA Catalog of Federal Domestic Assistance</td>
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<td>DOL Department of Labor</td>
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<td>ES Employment Service</td>
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<td>Firm White + Samaniego + Campbell, L.L.P.</td>
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<td>GAS Government Auditing Standards</td>
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<td>OIG Office of Inspector General</td>
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<td>OMB Office of Management and Budget</td>
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<td>QCR Quality Control Review</td>
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Independent Public Accountant Response to Draft Report

September 9, 2010

Mr. Elliott P. Lewis
Assistant Inspector General for Audit
U.S. Department of Labor
Office of Inspector General
200 Constitution Avenue, N.W.
Room S-5512
Washington, D.C. 20210

Dear Mr. Lewis:

We have the following responses to your findings relating to your quality control review of the single audit of the Upper Rio Grande Workforce Development Board, Inc. for the ended June 30, 2009.

Finding #1: The Firm did not document the reasons why compliance requirements did not apply to major programs.

We agree with your finding and acknowledge that we did not document the reasons why compliance did not apply to major programs. We will implement review procedures and update audit documentation to show the reasons a compliance requirement does not apply to a major program. We will also increase supervisory involvement to emphasize the importance of clear and concise audit documentation. Since the issuance of this report, we have added another audit partner and as a result, we have two audit partners involved in supervision and the review process on all audits. The corrective actions will be completed and documented by December 31, 2010.

Finding #2: The Firm did not document sampling methodologies used for internal controls and compliance requirements tested.

We agree with your finding and acknowledge that we did not document sampling methodologies for internal controls and compliance requirements tested. We will implement review procedures and update audit documentation to show the sampling methodologies used for all compliance requirements tested. We will also increase supervisory involvement to emphasize the importance of clear and concise audit documentation. Since the issuance of this report, we have added another audit partner and as a result, we have two audit partners involved in supervision and the review process on
all audits. The corrective actions will be completed and documented by December 31, 2010.

Finding #3: The Firm did not document its conclusions on dual-purpose testing utilization.

We agree with your finding and acknowledge that we did not document conclusions on dual-purpose testing utilization. We will implement review procedures and update audit documentation to show the utilization of dual-purpose testing and separate conclusions on the internal control and compliance testing results. We will also increase supervisory involvement to emphasize the importance of clear and concise audit documentation. Since the issuance of this report, we have added another audit partner and as a result, we have two audit partners involved in supervision and the review process on all audits. The corrective actions will be completed and documented by December 31, 2010.

Finding #4: The Firm did not document auditor judgments on the significance of exceptions.

We agree with your finding and acknowledge that we did not document auditor judgments on the significance of exceptions. We will implement review procedures and update audit documentation to show the auditor judgments for noted exceptions and provide a clear understanding of the significance of exceptions noted during testing. We will also increase supervisory involvement to emphasize the importance of clear and concise audit documentation. Since the issuance of this report, we have added another audit partner and as a result, we have two audit partners involved in supervision and the review process on all audits. The corrective actions will be completed and documented by December 31, 2010.

Finding #5: The Firm did not ensure that the auditee complied with reporting requirements to prepare the SEFA in the format required by A-133.

We agree with your finding and acknowledge that we did not specifically identify CPDAs 17.258, 17.259, and 17.260 as a cluster in the Schedule of Federal Awards (“SEFA”). 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. In addition, we will strengthen review procedures over the SEFA and inform the auditee of the need to accurately complete the SEFA. Since the issuance of this report, we have added another audit partner and as a result, we have two audit partners involved in supervision and the review process on all audits. The corrective actions will be completed and documented by December 31, 2010.
Finding #6: The Firm did not ensure that the audittee complied with reporting requirements to prepare the data-collection in the format required by A-133.

We agree with your finding and acknowledge that the data-collection form submitted to the Federal Audit Clearinghouse was incorrectly completed because all WIA cluster programs were not identified as major programs, the audittee’s name was misspelled, and the ARRA prefix was misplaced. We will inform the audittee of the need to accurately complete the data-collection form and submit a revised data-collection form to the Federal Audit Clearinghouse to accurately show the WIA cluster as major programs, audittee’s name, and the ARRA prefix. In future audits, we will establish better review procedures of audit products and provide additional training if necessary, for those responsible for audit report quality control. Since the issuance of this report, we have added another audit partner and as a result, we have two audit partners involved in supervision and the review process on all audits. The corrective actions will be completed and documented by December 31, 2010.

Sincerely,

Roxie Samaniego, CPA
Partner
White + Samaniego + Campbell, LLP