

U.S. Department of Labor

Office of Inspector General—Office of Audit

SINGLE AUDIT QUALITY CONTROL REVIEW



QUALITY CONTROL REVIEW SINGLE AUDITS OF EXPERIENCE WORKS INC. AND AFFILIATE FOR THE YEARS ENDED JUNE 30, 2015 THROUGH JUNE 30, 2017

Date Issued: September 30, 2019
Report Number: 24-19-003-03-360

U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210



INSPECTOR GENERAL'S REPORT

September 30, 2019

Elisa Savva
Partner
RSM US LLP
1861 International Drive, Suite 400
McLean, VA 22102

The U.S. Department of Labor's (DOL) Office of Inspector General (OIG) conducted a Quality Control Review (QCR) of the Single Audits of Experience Works Inc. and Affiliate for the years ended June 30, 2015 through June 30, 2017. The single audit engagements were completed by RSM US LLP, (Firm) under the Federal Single Audit Act and Office of Management and Budget Circular A-133 (A-133) for the year ended June 30, 2015 and OMB's Uniform Guidance for the years ended June 30, 2016, and June 30, 2017.

A QCR is performed to provide evidence of the reliability of the single audit to the auditors of federal agency financial statements, such as those required by the Chief Financial Officers Act, those responsible for program administration, and others. For the years ended June 30, 2015 through June 30, 2017, Experience Works Inc. and Affiliate reported expenditures of \$266,384,142, consisting of DOL funds totaling \$265,476,967 and non-DOL funds totaling \$907,175. The single audit conducted by the Firm covered one DOL major program: Senior Community Service Employment Program, totaling \$265,476,967. The remaining \$907,175 of non-DOL funds were used for non-major programs and were not tested as part of the single audit.

Our objective was to determine if the audits were conducted in accordance with applicable standards, including Generally Accepted Government Auditing Standards (GAGAS) and Generally Accepted Auditing Standards (GAAS), and met the requirements of A-133 and Uniform Guidance.

RESULTS IN BRIEF

We found the audits were conducted in accordance with applicable standards, with one exception. Specifically, we determined the Firm should have conducted additional audit procedures during its single audit of Experience Works for the period ending June 30, 2015, in response to risks of financial mismanagement reported by Employment and Training Administration (ETA).

We recommend the Firm, in conducting future audits, comply with Government Auditing Standards by applying audit procedures specifically to address known matters of abuse.

We have discussed our concerns and observations with Firm officials who agreed with our recommendation for future audits and will apply audit procedures specifically designed to address likely or known matters of abuse.

Details on the results of our review are provided in the Enclosure.

Sincerely,



Elliot P. Lewis
Assistant Inspector General
for Audit

Enclosure

cc: Latonya Torrence, Director, Division of Policy, Review, and Resolution,
ETA

Julie Cerruti, Audit Liaison, ETA

Gregory Hitchcock, Audit Liaison, ETA

Nalini V. Close, Administrator, Office of Management and Administrative
Services, ETA

Sally Boofer, Director of Finance, Experience Works Inc. and Affiliate

Abbie Barnes, Partner, RSM US LLP

Enclosure

**Quality Control Review
Single Audits of Experience Works, Inc. and Affiliate
for the Year Ended June 30, 2015 through June 30, 2017
(24-19-003-03-360)**

The DOL OIG conducted a QCR of the single audits of Experience Works Inc. and Affiliate for the years ended June 30, 2015 through June 30, 2017. The single audits were completed by RSM US LLP under the Federal Single Audit Act and the Office of Management and Budget's (OMB) Circular A-133 for the year ended June 30, 2015 and OMB's Uniform Guidance for the years ended June 30, 2016, and June 30, 2017. Our review included the following DOL major program:

DOL Major Program Reviewed	Catalog of Federal Domestic Assistance (CFDA) Number	DOL Major Funds Reported as Expended
Senior Community Service Employment Program (FY15)	17.235	\$104,193,074
Senior Community Service Employment Program (FY16)	17.235	\$97,056,176
Senior Community Service Employment Program (FY17)	17.235	64,227,717
Total DOL Major Funds Reported as Expended		\$265,476,967

BACKGROUND

The Single Audit Act Amendments of 1996 (Single Audit Act) were enacted to streamline and improve the effectiveness of audits of federal awards expended by states, local governments, and not-for-profit entities (referred to as non-federal entities), as well as to reduce audit burden. The Single Audit Act requires these audits, referred to as "single audits" to be conducted by an independent auditor. Single audits have a significant public interest component as they are relied on by federal agencies as part of their administrative responsibilities for determining compliance with requirements of federal awards by non-federal entities.

The Single Audit Act gives the Director of the OMB the authority to develop government-wide guidelines and policy on performing audits to comply with the Act. The most recent OMB regulation issued for this purpose is Title 2, U.S. Code of Federal Regulation (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance). It includes uniform cost principles and audit requirements for federal awards to nonfederal entities and administrative requirements for all federal grants and cooperative agreements. The

previous OMB regulation containing requirements for single audits was OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

The single audit is an organization-wide audit or examination of a non-federal entity that expends \$750,000 or more of Federal assistance received for its operations. Usually performed annually, a single audit has two main objectives:

- a. Audit of the entity's financial statements and reporting on a separate SEFA in relation to those financial statements.
- b. Compliance audit of federal awards expended during the year as a basis for issuing additional reports on compliance related to major programs and on internal control over compliance.

The single audit must be submitted to the Federal Audit Clearinghouse along with a data collection form. The data collection form (Form SF-SAC) provides information about the auditee, its Federal programs, and the results of the audit. The Federal Audit Clearinghouse is designated by OMB as the repository of record where non-Federal entities are required to transmit the reporting packages including the data collection form.

The auditee must also prepare a SEFA for the period covered by the financial statements, which must include the total Federal awards expended. All expenditures of Federal funds must be accounted for in the annual SEFA, whether funds are received directly from a Federal agency or indirectly from a pass-through entity. Indirect funding occurs when a non-federal entity receives and passes federal dollars to a subrecipient. A subrecipient is a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a Federal program. At a minimum, the schedule must:

- List individual Federal programs by Federal agency.
- For Federal awards received as a subrecipient, include the name of the pass-through entity and identifying number assigned by the pass-through entity.
- Provide total Federal awards expended for each individual Federal program and the Catalog of Federal Domestic Assistance (CFDA) number.
- Include the total amount provided to subrecipients from each Federal program.
- Identify balances outstanding at the end of the audit period for loan or loan guarantee programs
- Include notes that describe that significant accounting policies used in preparing the schedule.

The auditor must use a risk-based approach to determine which Federal programs are major programs. As part of this risk-based approach, the auditor must identify the larger Federal programs as Type A programs. The Type A threshold determination for entities expending over \$25 million follows a sliding scale based on percentage of the total expenditures. Federal programs not labeled Type A must be labeled Type B programs. Type B programs are smaller Federal programs.

RESULTS

We found the single audit for the period ended June 30, 2015, conducted by the Firm was not in full compliance with applicable standards. Although the firm reported a significant deficiency and weaknesses relating to Experience Works' financial management and program compliance, the Firm did not sufficiently expand testing to determine the impact of the concerns identified, in compliance with *Government Auditing Standards*.

THE FIRM SHOULD HAVE PERFORMED ADDITIONAL AUDIT PROCEDURES TO ADDRESS KNOWN RISKS OF FINANCIAL MISMANAGEMENT

The Firm did not sufficiently perform additional audit procedures during its single audit of Experience Works for the period ending June 30, 2015, in response to risks of financial mismanagement reported by ETA. Specifically, ETA reported in its December 2015, "Financial Compliance Review," a number of financial mismanagement findings and questioned costs for Experience Works for the period from July 1, 2012, through June 30, 2015, which raised serious concerns about Experience Works' financial stability and ability to operate successful and compliant federally-funded programs.

While the Firm reported these matters in its report as a significant deficiency and noncompliance, the Firm did not expand the scope of audit procedures prior to issuing its opinion on March 29, 2016. This occurred because the firm did not follow *Government Auditing Standards* and sufficiently evaluate the impact of ETA's Financial Compliance Review in designing their audit procedures. The Firm's failure to perform additional procedures does not in our view necessitate a re-performance of the audit, as additional testing performed during the course of this quality control review did not contradict the Firm's audit report. However, we concluded the single audit conducted by the Firm was not in full compliance with *Government Auditing Standards*.

The U.S. Government Accountability Office (GAO) *Government Auditing Standards*, 2011 Revision, Section 4.08, states:

"...if auditors become aware of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives, auditors should apply audit procedures specifically directed to ascertain the potential effect on the financial statements or other financial data significant to the audit objectives. After performing additional work, auditors may discover that the abuse represents potential fraud or noncompliance with provisions of laws, regulations, contracts, or grant agreements."

The Firm's noncompliance with *Government Auditing Standards* may have resulted in the failure to identify potential fraud or noncompliance with provisions of laws,

regulations, or grant agreements that would assist DOL program officials to assess the grantees performance.

OIG RECOMMENDATION

We recommend the Firm:

1. In conducting future audits, comply with Government Auditing Standards by applying audit procedures specifically to address known matters of abuse.

FIRM'S RESPONSE

The Firm agreed with our recommendation for future audits and will apply audit procedures specifically designed to address likely or known matters of abuse. The Firm's response to our draft report is included in its entirety in Appendix B.

Appendices

APPENDIX A: OBJECTIVE, SCOPE, METHODOLOGY, & CRITERIA

OBJECTIVE

Our objective was to determine if the audits were conducted in accordance with applicable standards, including GAGAS and GAAS, and met the requirements of A-133 and Uniform Guidance.

SCOPE

We performed a QCR of RSM US LLP’s single audits of Experience Works Inc. and Affiliate’s financial statements, SEFA, and reports required by GAGAS, and A-133 for the year ended June 30, 2015, and Uniform Guidance for years ended June 30, 2016, and June 30, 2017. Our QCR of RSM US LLP covered \$265.5 million in Federal expenditures for one DOL major program. We performed our work at the Firm’s office at 1861 International Drive, Suite 400, McLean, VA 22102

METHODOLOGY

We reviewed the audit reports using the Council of Inspectors General on Integrity and Efficiency (CIGIE) Guide for Desk Reviews of A-133 Audits, and the CIGIE Guide for Single Audit Reports (Desk Guides). The Desk Guides were developed to ensure compliance with the requirements of A-133, and Uniform Guidance (including the Compliance Supplement), GAGAS, and the American Institute of Certified Public Accountants Audit Guide “Government Auditing Standards and Single Audits.” We reviewed the financial statements, compliance, and internal control reporting; SEFA; and Schedule of Findings and Questioned Costs.

Using the CIGIE Uniform Guide for QCRs of A-133 Audits and the CIGIE Uniform Guide for Single Audits (QCR Guides), we reviewed audit documentation and held discussions with the Firm to accomplish the required steps. The QCR Guides were developed to test for compliance with GAGAS and GAAS, and met the requirements of A-133 and Uniform Guidance.

Specifically, we reviewed:

- Auditor Qualifications
- Independence
- Due Professional Care
- Quality Control
- Planning and Supervision
- Management Representations

- Litigation, Claims and Assessments
- Possible Fraud or Illegal Acts
- Determination of Major Programs
- SEFA
- Internal Control Over Major Programs
- Direct and Material Compliance Requirements

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

CRITERIA

- 2 CFR 200, Uniform Guidance
- Single Audit Act of 1984
- Single Audit Act Amendments of 1996
- 2015, 2016, 2017 Compliance Supplements
- American Institute of Certified Public Accountants Audit Guide
- GAGAS, 2011 Revision
- Guidance on GAGAS Requirements for Continuing Professional Education
- GAAS

APPENDIX B: FIRM'S RESPONSE



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September 27, 2019

Grover Fowler
Assistant Director
Office of Single Audit Oversight
U.S. Department of Labor
Office of Inspector General
200 Constitution Avenue, N.W., Room N-4633
Washington, D.C. 20210

Dear Mr. Fowler:

This is in response to your quality control review of the Single Audit of Experience Works, Inc. and Affiliate for the years ended June 30, 2015, through June 30, 2017.

We agree with your recommendation for future audits and we will continue to apply audit procedures specifically designed to address likely or known matters of abuse.

With respect to the assertion that "...the Firm should have conducted additional audit procedures during its single audit of Experience Works for the period ending June 30, 2015, in response to risks of financial mismanagement reported by ETA." We submit the following for your consideration.

RSM utilizes a program that includes procedures to address the integrity of management as well as any known or likely fraud or abuse. The RSM audit team was made aware of the investigation during the reporting phase of our fiscal 2015, audit and once we were aware of the details, our 2015, audit procedures were amended accordingly. Specifically, we performed the following additional procedures:

- Turnover in management and other risk assessment considerations caused us to conclude that this became a relatively high-risk engagement. As a result, certain adverse data and background checks were performed and an additional quality control reviewer (EQR) was assigned to the engagement. The EQR participated in the brainstorming and planning discussions and reviewed all the UG testing workpapers, as well as copious others throughout the file.
- As specifically provided for in GAGAS 4.16 we obtained and utilized the DOL monitoring report to "avoid duplication of efforts" and to determine the potential impact of the related findings on our fiscal 2015 audit. We found the report to be detailed and thorough for purposes of determining the relative impact on our audit and our reports thereon.
- We obtained management's response and all related exhibits, noting it was consistent with the information found in the monitoring report. We analyzed this information to determine the impact on the audit and documented our conclusion.
- Experience Works would have qualified to be a low risk auditee based on the 2014, audit results, however, we elevated the risk based on the monitoring report to non-low, which impacted the testing performed, specifically increasing large population sample sizes to 60 instead of 40 (ODC, salary, indirect, eligibility, cash management, and reporting).

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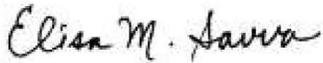
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- We included a finding in our UG audit report related to the monitoring report to make users of the audit reports aware of it. We also included control deficiencies related to board governance and cash management (line of credit) in a separate management letter (both of which were recurring from 2014, management letter).

As noted above, we agree with your recommendation and will continue to comply with Government Auditing Standards by applying applicable audit procedures specifically designed to address known matters of abuse.

Thank you,

RSM



Elisa M. Savva, CPA, MSA, Partner

APPENDIX C: ACKNOWLEDGEMENTS

Key contributors to this report were Sean Gilkerson (Acting Director), Grover Fowler, Patrick Trager, and Elizabeth Garcia.

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