

U.S. Department of Labor

Office of Inspector General—Office of Audit

SINGLE AUDIT QUALITY CONTROL REVIEW



RECOVERY ACT: QUALITY CONTROL REVIEW SINGLE AUDIT OF NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS FOR THE YEAR ENDED JUNE 30, 2009

Date Issued:
Report Number:

March 21, 2011
18-11-002-03-001

U.S. Department of LaborOffice of Inspector General
Washington, D.C. 20210

March 21, 2011

Assistant Inspector General's Report

Donna Trujillo, Chief Financial Officer
 New Mexico Department of Workforce Solutions
 401 Broadway, NE
 Albuquerque, NM 87102

Dear Ms. Trujillo:

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 Meyners + Company, LLC (Firm)¹, under the Federal Single Audit Act (Act) and Office of Management and Budget (OMB) Circular A-133 (A-133):

Single Audit of the New Mexico Department of Workforce Solutions
 (NMDWS) For the Year Ended June 30, 2009

Our review included the following DOL major programs:

DOL Major Programs Reviewed		
Major Program	CFDA Number	DOL Major Funds Reported as Expended
Employment Services (ES) Cluster	17.207	
	17.801	
	17.804	\$7,375,456
Unemployment Insurance	17.225	\$388,121,799
Workforce Investment Act (WIA) Cluster	17.258	
	17.259	
	17.260	\$15,105,719
American Recovery and Reinvestment Act (Recovery Act) – WIA Cluster	17.258	
	17.259	
	17.260	\$1,985,560
Total DOL Major Program Funds Reported as Expended		\$412,588,534

¹ Effective January 1, 2011 Meyners + Company, LLC was purchased by Clifton Gunderson, LLP

Since our review included Recovery Act funds, we are required by the Recovery Act to post this report on our website www.oig.dol.gov and link it to the Recovery Accountability and Transparency Board's (Board) 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 over compliance with requirements applicable to each major program and internal control over compliance in accordance with A-133 was acceptable. However, audit work related to the Statement of Expenditures of Federal Awards (SEFA) did not meet certain requirements of A-133. The Firm should improve its quality control over reviewing single audit reports and provide additional training to those responsible for ensuring single audit reports are properly presented. The Firm should also report internal control findings to NMDWS related to identification of clusters and subrecipients, and work with NMDWS to reissue the single audit reporting package to the Federal Audit Clearinghouse.

A-133, Section 400(a)(5), requires us to advise the auditor, and where appropriate, the auditee of any deficiencies found in the audits when the deficiencies require corrective action by the auditor. When advised of deficiencies, the auditee shall work with the auditor to take corrective action. If corrective action is not taken, we are responsible for notifying the auditor, the auditee, and applicable Federal awarding agencies and pass-through entities of the facts and make recommendations for follow-up action. Major inadequacies shall be referred to appropriate State licensing agencies and professional bodies for disciplinary action.

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

Sincerely,



Elliot P. Lewis
Assistant Inspector General
for Audit

Enclosure

cc: Ms. Georgie Ortiz, Partner, Clifton Gunderson, LLP.

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

Enclosure

**Recovery Act: Quality Control Review
Single Audit of the New Mexico Department of Workforce Solutions
for the Year Ended June 30, 2009
(18-11-002-03-001)**

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 25, 2010, the Firm issued a single audit report of the NMDWS financial statements, Schedule of Expenditures of Federal Awards (SEFA), and reports required by Government Auditing Standards (GAS) and A-133 for the year ended June 30, 2009.

Our review included the following DOL major programs:

DOL Major Programs Reviewed		
Major Program	CFDA Number	DOL Major Funds Reported as Expended
ES Cluster	17.207	
	17.801	
	17.804	\$7,375,456
Unemployment Insurance	17.225	\$388,121,799
WIA Cluster	17.258	
	17.259	
	17.260	\$15,105,719
Recovery Act – WIA Cluster	17.258	
	17.259	
	17.260	\$1,985,560
Total DOL Major Program Funds Reported as Expended		\$412,588,534

Since our review included Recovery funds, we are required by the Recovery Act to post this report on our website www.oig.dol.gov and link it 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. To address these objectives, we answered the following question:

Did the Firm's single audit comply with applicable standards and single audit requirements so that no follow-up work or management's attention would be needed?

Results

The audit work performed by the Firm over compliance with requirements applicable to each major program and internal control over compliance in accordance with A-133 was acceptable. However, the audit work performed related to the SEFA did not meet certain requirements of A-133. Specifically, the Firm did not report audit findings that related to NMDWS not properly identifying in the SEFA DOL programs that comprised the ES cluster of programs and the amounts passed through to subrecipients for each federal program.

Additional work is required to bring this audit into compliance with the requirements of the Act. Specifically, the Firm should do the following:

1. Improve its quality control over reviewing single audit reports and provide additional training to those responsible for ensuring single audit reports are properly presented.
2. Report internal control findings to NMDWS related to identification of clusters and subrecipients.
3. Work with NMDWS to reissue the single audit reporting package to the Federal Audit Clearinghouse.

A-133, Section 400(a)(5), requires us to advise the auditor, and where appropriate, the auditee of any deficiencies found in the audits when the deficiencies require corrective action by the auditor. When advised of deficiencies, the auditee shall work with the auditor to take corrective action. If corrective action is not taken, we are responsible for notifying the auditor, the auditee, and applicable Federal awarding agencies and pass-through entities of the facts and make recommendations for follow-up action. Major inadequacies shall be referred to appropriate State licensing agencies and professional bodies for disciplinary action.

Did the Firm’s single audit comply with applicable standards and single audit requirements so that no follow-up work or management’s attention would be needed?

The Firm’s noncompliance with certain single audit requirements could result in users of NMDWS’s SEFA not having reliable information needed to make informed decisions.

The Firm did not report audit findings related to NMDWS not complying with reporting requirements to prepare the SEFA in the format required by A-133.

DOL programs related to ES should have been presented in the SEFA 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 AICPA Audit Guide, Government Auditing Standards, and Circular A-133 Audits (Guide) states in Chapter 7.05:

The SEFA is unlike certain other supplementary information included in documents containing audited financial statements in that it serves as the primary basis for the auditor’s major program determination ... Therefore, appropriate major program determination by the auditor is dependent on the accuracy and completeness of the information that makes up the SEFA.

Firm officials told us they were aware of the cluster reporting requirement and had audited the three ES programs as major programs. They attributed the reporting error to a grantee editing problem that was not caught by the Firm’s quality control process. Our review of the 2007 and 2008 single audit reports found that NMDWS had the same reporting error. Therefore, we believe the reporting error with the ES cluster is the result of a systemic problem within NMDWS as well as a weakness in the Firm’s quality control process.

When Federal programs are not properly presented as a cluster, auditors might not identify and audit all major program expenditures. In addition, this does not provide for a uniform audit report presentation, which may prevent users from effectively using the data contained in the audit report.

Amounts paid to subrecipients from each federal program were not identified in the SEFA.

A-133, Subpart C – Financial statements, Section .310(b)(5), states, in part:

... At a minimum, the schedule should: ... For federal awards received as a pass-through entity, identify, to the extent practical, the total amount provided to subrecipients from each federal program.

The Firm stated it did not believe it was practical to provide subrecipient information in the SEFA. It further noted that amounts reported as subrecipient expenditures in the footnote to the SEFA would not tie to the amount of program expenditures in the SEFA and would be confusing to the State auditor review team.

By NMDWS not providing required subrecipient information, users of the SEFA would not have sufficient information to judge how NMDWS accomplished its mission of providing training to unemployed or underemployed New Mexicans. This lack of subrecipient information could also result in the auditor not including the OMB compliance requirement for NMDWS to monitor WIA funds passed through to subrecipients as part of its compliance audit plan. Finally, the use of Recovery Act funds would not have the required transparency for those funds.

Recommendations

We recommend the Firm:

1. Provide additional training in relevant A-133 and Guide requirements and overall report quality control processes to Firm supervisory and management personnel responsible for audits related to entities required to report under the Act.
2. Follow GAS 5.26 through 5.31 related to subsequent discovery of facts existing at the date of the auditor's report to ensure users of NMDWS's single audit reporting package are aware of the reporting errors. This would include reporting the appropriate findings noted in this report.
3. Submit a revised reporting package to the Federal Audit Clearinghouse.

We appreciate the cooperation and courtesies that Firm personnel extended to the Office of Inspector General.

Firm's Response

The firm agreed with the recommendations and provided its plans to address each of them.

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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 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 NMDWS financial statements, SEFA, and reports required by GAS and A-133 for the year ended June 30, 2009, performed by the Firm.

The legislature of the State of New Mexico passed legislation to improve the effectiveness of the workforce service and delivery system. The bill combined all functions and staff of the Governor's Office of Workforce Training & Development with all functions and staff of the New Mexico Department of Labor and created a new government agency called NMDWS. All Office of Workforce Training & Development and New Mexico Department of Labor employees began working for this new department effective July 1, 2007.

NMDWS's mission is to enhance productivity and competitiveness of New Mexico business and industry by improving the quality and availability of the New Mexico workforce. To accomplish this, NMDWS uses a system that offers universal access to lifelong learning based on relevant local and regional labor market needs, via integrated, customer-focused accountable service partnerships; and promotes charitable and educational services by providing special services to disadvantaged, untrained, displaced, and under-trained workers within the State of New Mexico.

For the year ended June 30, 2009, the NMDWS reported expenditures of about \$415.9 million in total Federal awards and \$415.8 million in DOL awards, of which \$2.0 million was reported as attributable to the Recovery Act

The Recovery Act was signed into law on February 17, 2009. The stated purposes of the Recovery Act 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.

The Recovery Act 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 Board was established by the Recovery Act, Congress, and the OMB to oversee and monitor implementation of the Recovery Act through periodic reporting on the use and expenditure of funds. We are required by the Recovery Act, 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 it to the Board's website www.recovery.gov.

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.

To answer those objectives we asked the following question:

Did the Firm's single audit comply with applicable standards and single audit requirements so that no follow-up work or management's attention would be needed?

Scope

We performed a QCR of the Firm's single audit of the NMDWS Financial Statements, SEFA, and reports required by GAS and A-133 for Year Ended June 30, 2009. As part of the QCR, we included review of the single audit reports issued by NMDWS and the Firm for the years ended June 30, 2007 and 2008. We performed our work at the offices of the Firm at 500 Marquette, Suite 800, Albuquerque, New Mexico.

Our review included the following DOL major programs:

DOL Major Programs Reviewed		
Major Program	CFDA Number	DOL Major Funds Reported as Expended
ES Cluster	17.207	
	17.801	
	17.804	\$7,375,456
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	17.259	
	17.260	\$15,105,719
Recovery Act – WIA Cluster	17.258	
	17.259	
	17.260	\$1,985,560
Total DOL Major Program Funds Reported as Expended		\$412,588,534

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:

- 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
- 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, as well as the single audit reports issued by NMDWS and the Firm for the years ended June 30, 2007 and 2008 to identify systemic issues.

Criteria

A-133

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

GAS, July 2007 Revision

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

Recovery Act

Single Audit Act of 1984

Single Audit Act Amendments of 1996


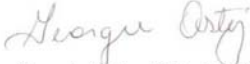
Appendix C**Acronyms and Abbreviations**

A-133	Office of Management and Budget Circular A-133
Act	Federal Single Audit Act
AICPA	American Institute of Certified Public Accountants
Board	Recovery Accountability and Transparency Board
Guide	American Institute of Certified Public Accountants Audit Guide, GAS, and A-133 Audits
CFDA	Catalog of Federal Domestic Assistance
DOL	Department of Labor
ES	Employment Services
Firm	Meyners + Company, LLC
GAS	Government Auditing Standards
OIG	Office of Inspector General
OMB	Office of Management and Budget
QCR	Quality Control Review
Recovery Act	American Recovery and Reinvestment Act
SEFA	Schedule of Expenditures of Federal Awards
NMDWS	New Mexico Department of Workforce Solutions
WIA	Workforce Investment Act

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Appendix D

Independent Public Accountant Response to Draft Report

<p>11 March 2011</p>	<p>Via FedEx</p>	<p>MEYERS + COMPANY, LLC</p>	<p>Certified Public Accountants/Consultants to Business</p>
<p>Mr. Eliot P. Lewis Frances Perkins Building 200 Constitution Ave. NW Room S-5512 Washington, DC 20210</p>			
<p>Re: Responses to US Department of Labor Office of Inspector General – Office of Audit Review</p>			
<p>Dear Mr. Lewis,</p>			
<p>We agree with the recommendations noted in the Discussion Draft Report and below are our responses;</p>			
<ol style="list-style-type: none">1. Meyners + Company, LLC was acquired by Clifton Gunderson effective 1/1/2011, we have spoken with their quality assurance directors and we have relevant training planned related to OMB A-133. In addition we are now part of their overall quality control assurance process.2. We will re-submit the single audit report in accordance with GAS 5.26 through 5.31 and we will include the appropriate findings noted in the report.3. We will submit a revised reporting package to the Federal Audit Clearinghouse.		<p>500 Marquette NW, Suite 800 Albuquerque, NM 87102</p>	<p>P 505/842-8290 F 505/842-1568 E epa@meyners.com</p>
<p>We would like to thank the department for their professionalism during this review.</p>			
<p>Very truly yours, Meyners + Company, LLC</p>			
 <p>Georgie Ortiz, CPA, CGFM Partner</p>		<p>www.meyners.com</p>	<p>An Independent Member of the BDO Seidman Alliance</p>