

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 JOB SERVICE NORTH DAKOTA FOR THE YEAR ENDED JUNE 30, 2010

Date Issued: September 30, 2011
Report Number: 18-11-008-03-001

U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210



September 30, 2011

Assistant Inspector General's Report

David Krebsbach, Finance Manager
Job Service North Dakota
1000 E Divide Ave.
Bismarck, ND 58506

Dear Mr. Krebsbach:

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 Single Audit of Job Service North Dakota (JSND) for the year ended June 30, 2010, completed by Eide Bailly, LLP (Firm), under the Federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133 (A-133).

Our review included the following DOL major programs: the Employment Services (ES) cluster, Unemployment Insurance (UI), and Workforce Investment Act (WIA) cluster totaling \$153,469,345, which includes \$13,995,400 of American Recovery and Reinvestment Act (Recovery Act) expenditures.

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 in that the Firm did not report a material error in the SEFA. The Firm should report an internal control finding related to a material misstatement of the SEFA, and work with JSND to reissue the Single Audit reporting package to the Federal Audit Clearinghouse. The Firm should improve its supervisory review of audit documentation and quality control over reviewing Single Audit reports; and also provide additional training to those responsible for ensuring Single Audit reports are properly presented.

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. Barb Aasen, Partner, Eide Bailly, LLP

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

Ms. Darlene Lucas, Audit Liaison, Employment and Training Administration

Ms. Kari Baumann, Audit Liaison, Employment and Training Administration

Enclosure

**Recovery Act: Quality Control Review
Single Audit of Job Service North Dakota
for the Year Ended June 30, 2010
(18-11-008-03-001)**

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 November 18, 2010, the Firm issued a Single Audit report of the JSND financial statements, SEFA, and reports required by Government Auditing Standards (GAS) and A-133 for the year ended June 30, 2010.

Our review included the following DOL major programs:

DOL Major Programs Reviewed			
Major Program	Catalog of Federal Domestic Assistance (CFDA) Number	Recovery Act Funds Reported as Expended	DOL Major Funds Reported as Expended
ES Cluster	17.207		
	17.801		
	17.804		\$ 6,558,810
UI	17.225		\$127,669,722
WIA Cluster	17.258		
	17.259		
	17.260		\$5,245,413
Recovery Act – ES Cluster	17.207	\$982,570	
Recovery Act – UI	17.225	\$9,803,908	
Recovery Act – WIA Cluster	17.258		
	17.259		
	17.260	\$3,208,922	
Subtotals by Funding Source		\$13,995,400	139,473,945
Total DOL Major Program Funds Reported as Expended			\$153,469,345

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, audit work performed related to the SEFA did not meet certain requirements of A-133. Specifically, the Firm did not report a material error in the SEFA related to JSND not identifying total UI expenditures. Although the audit work over compliance and internal control over compliance was acceptable, the Firm did not always ensure audit documentation was sufficient to allow a knowledgeable person with no prior association with the work to be able to reach the same conclusions as the auditor.

Additional work is required to bring this audit into compliance with the requirements of A-133 and GAS. Specifically, the Firm should do the following:

1. Report an internal control finding related to a material misstatement of JSND's SEFA.
2. Work with JSND to correct and reissue the Single Audit report to the Federal Audit Clearinghouse.
3. Emphasize the Firm's audit documentation policy to those performing Single Audits to ensure Single Audit projects are documented in accordance with GAS.
4. Provide additional training targeting supervisory review of audit documentation and quality control over reviewing Single Audit reports.

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?

By not identifying and reporting a material weakness in the presentation of the SEFA, the Firm did not ensure users of JSND’s Single Audit Report had information needed to make informed decisions on JSND’s use of Federal awards.

Finding 1 — The Firm did not report an audit finding related to JSND not reporting total UI expenditures in the SEFA.

The Firm did not ensure that the auditee complied with reporting requirements to prepare the SEFA in the format required by OMB A-133 Compliance Supplement. Reported UI expenditures are required to include all benefit payments whether paid with Federal or state funds. The SEFA was materially understated by almost \$87 million because the state UI payments were not included by JSND in its report and the Firm did not ensure the SEFA reporting was accurate. If this condition had been found by the Firm, it should have issued a finding related to JSND that it did not have adequate controls in place to ensure the completeness of the SEFA.

OMB A-133 Compliance Supplement, Part 4-17.225-IV, requires that State UI funds should be included with Federal funds on the SEFA. GAS, 5.26 through 5.30, state that if material misstatements are identified by the auditors after the report is issued, then this may lead to the auditee reissuing the report within an appropriate timeframe and with appropriate disclosures. Furthermore, GAS, 5.31, requires that if the auditee does not reissue the report accordingly, then it is the Firm’s responsibility to inform appropriate officials in order to prevent further reliance in the previously issued report.

The SEFA reported approximately \$51 million in UI expenditures; however, the JSND Statements of Revenue, Expenses and Changes in Fund Net Assets reported \$51 million in Federal UI expenditures and almost \$87 million in state UI expenditures. Although the Firm tested both Federal and state UI expenditures, the inaccurate SEFA reporting was not identified and corrected due to a lack of auditee and Firm understanding of OMB reporting requirements.

The Firm should have identified JSND’s SEFA preparation error and issued a finding that JSND did not have adequate controls in place to ensure the SEFA’s completeness. When the SEFA is not presented accurately, it does not allow users to efficiently and effectively use the data contained in the reports.

Finding 2 — The Firm did not always include audit documentation as required by GAS.

The Firm did not always ensure its referenced audit documentation adequately supported its conclusions on JSND’s internal control and compliance as required by GAS and A-133. For example, referenced audit documentation did not show how the Firm ensured:

1. completeness of databases used in testing internal control over compliance and compliance with laws, regulations and grant agreements;
2. sufficiency of audit documentation to support a conclusion on the allowability of payroll charges to a specific grant fund;
3. reasonableness of some random samples;
4. adequacy of explanations and discussions with auditee management for material variances noted during analytical procedures; and
5. sufficiency of audit documentation referencing to supporting detailed audit documentation.

GAS, paragraph 4.19, states, in part:

Under the American Institute of Certified Public Accountants standards and GAS, auditors should prepare audit documentation that enables an experienced auditor, having no previous experience to the audit, to understand:

- (a) the nature, timing, and extent of auditing procedures performed to comply with Generally Accepted Government Auditing Standards (GAGAS) and other applicable standards and requirements;
- (b) the results of the audit procedures performed and the audit evidence obtained;
- (c) the conclusions reached on significant matters; and
- (d) that the accounting records agree or reconcile with the audited financial statements or other audited information.

The Firm stated that JSND was an ongoing client, which could have contributed to the auditors and those responsible for reviewing the audit documentation to use their past knowledge of the client’s accounting processes — rather than adequately documenting the information in the audit documentation as required by the Firm’s policy — as support for the work performed and conclusions reached. The Firm was able to provide verbal information and audit documentation that had not originally been referenced as support for its conclusions.

The lack of documented explanations and referencing regarding how compliance and internal control testing was conducted and how it formed the basis for the documented conclusions could raise questions on whether the auditors, including the reviewer, understood the testing that was performed and the conclusions reached.

Recommendations

We recommend the Firm:

1. 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 JSND's Single Audit reporting package are aware of the reporting errors. This would include reporting the appropriate findings noted in this report.
2. Work with JSND to correct and reissue the Single Audit report to the Federal Audit Clearinghouse.
3. Emphasize the Firm's audit documentation policy to those performing Single Audits to ensure Single Audit projects are documented in accordance with GAS.
4. Provide additional training targeting supervisory review of audit documentation and quality control over reviewing Single Audit reports.

Firm's Response

The Firm agreed with the recommendations and provided its plans to address each of them. See Appendix D for the Firm's complete response.

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Appendices

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Appendix A**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.

A QCR is 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 JSND financial statements, SEFA, and reports required by GAS and A-133 for the year ended June 30, 2010, performed by the Firm.

For the year ended June 30, 2010, JSND reported expenditures of about \$157 million in total Federal awards and about \$155 million in DOL awards, of which almost \$14 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.

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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 JSND financial statements, SEFA, and reports required by GAS and A-133 for year ended June 30, 2010. As part of the QCR, we included review of the Single Audit reports issued by JSND and the Firm for the years ended June 30, 2009 and 2010. We performed our work at the offices of the Firm at 1730 Burnt Boat Loop, Suite 100, Bismarck, ND.

Our review included the following DOL major programs: the ES cluster, UI, and WIA cluster totaling \$153,469,345, including \$13,995,400 in Recovery Act expenditures

Methodology

Using the President's Council of Inspectors General on Integrity and Efficiency Uniform Guide for QCRs of OMB Circular A-133 Audits (QCR Guide), we reviewed audit documentation and held discussions with the Firm's partners and auditors to accomplish the required steps. The QCR 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 JSND and the Firm for the years ended June 30, 2008 and 2009 to identify systemic issues.

Criteria

A-133

American Institute of Certified Public Accountants Audit Guide, GAGAS, and A-133 Audits

GAGAS, July 2007 Revision

Guidance on GAGAS 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
Board	Recovery Accountability and Transparency Board
CFDA	Catalog of Federal Domestic Assistance
DOL	Department of Labor
ES	Employment Services
Firm	Eide Bailly, LLP
GAS	Government Auditing Standards
GAGAS	Generally Accepted Government Auditing Standards
JSND	Job Service North Dakota
OIG	Office of Inspector General
OMB	Office of Management and Budget
QCR	Quality Control Review
QCR Guide	President’s Council on Integrity and Efficiency Uniform QCR Guide for A-133 Audits
Recovery Act	American Recovery and Reinvestment Act
SEFA	Schedule of Expenditures of Federal Awards
UI	Unemployment Insurance
WIA	Workforce Investment Act

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Appendix D

Independent Public Accountant Response to Draft Report



September 30, 2011

Elliot P. Lewis
Assistant Inspector General for Audit
US Department of Labor
Office of Inspector General
Washington, DC 20210

Dear Mr. Lewis:

In conjunction with your Quality Control Review of the Single Audit of Job Service North Dakota for the year ended June 30, 2010, we have the following responses to the findings and recommendations included in your report.

Finding #1 – We agree with the finding, and accordingly, will follow the requirements of GAS 5.26 through 5.31 related to subsequent discovery of facts to ensure that the identified reporting errors are appropriately addressed, including the reporting of the appropriate finding in the Government Auditing Standards report. We will work with Job Service North Dakota to correct and reissue the Single Audit report to the Federal Audit Clearinghouse. We believe that this will appropriately address recommendation numbers one and two.

Finding #2 – We agree with the finding. Effective beginning with Single Audit engagements for periods ending on or after December 31, 2010, the Firm implemented a policy requiring an engagement quality review for all Single Audits. We believe that this will appropriately address recommendation number three. The Firm conducts annual firm-wide training for all partners and managers assigned to Single Audit engagements. We will include training on audit documentation and supervisory review in future training sessions. We will also share the results of this QCR with the Chair of our Firm Government Committee for distribution of the findings and areas for improvement to applicable Firm personnel. We believe that this will appropriately address recommendation number four.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Bluhm".

Brian Bluhm, CPA
Director of Assurance Services

www.eidebailly.com

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