

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 THE SOUTH CAROLINA DEPARTMENT OF EMPLOYMENT AND WORKFORCE FOR THE YEAR ENDED JUNE 30, 2012

Date Issued: August 29, 2014
Report Number: 18-14-003-03-315

U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210



August 29, 2014

Inspector General's Report

Don Grant
Chief Financial Officer
South Carolina Department
of Employment and Workforce
1550 Gadsden Street
Columbia, SC 29202

Dear Mr. Grant:

The U.S. Department of Labor (DOL), Office of Inspector General (OIG) conducted a Quality Control Review (QCR) of the Single Audit of the South Carolina Department of Employment and Workforce (SC DEW) for the year ended June 30, 2012. The single audit was completed by Scott and Company LLC, (Firm), under the Federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133 (A-133).

Our QCR included the following DOL major programs: Unemployment Insurance (UI), Trade Adjustment Assistance (TAA), and the Workforce Investment Act (WIA) cluster¹ totaling \$754,005,282, which included \$1,161,255 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.

Our objectives were to determine if: (1) the audit was 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; (2) there are any issues that may require management's attention; and (3) any follow-up work is needed to support the opinions contained in the audit report.

While we found the audit was conducted in accordance with applicable standards and met Single Audit Act requirements, we noted improvements to the Firm's audit documentation preparation and review should be made, and several reporting issues require management's attention and necessitate follow-up work. Specifically, we found

¹ A cluster is a grouping of closely related programs that have similar compliance requirements. Clusters are treated as a single program for the purpose of meeting the audit requirements of A-133, Section 105.


the audit work needed to be improved because the Firm did not always include complete and clear audit documentation as required by GAGAS. In addition, SC DEW submitted Fiscal Years (FY) 2010, 2011, and 2012 reporting packages late and the Firm did not report this as a finding and should have included an additional recommendation in FY 2012. Furthermore, SC DEW did not submit a corrective action plan that included an anticipated completion date for each FY 2012 finding's recommendation.

We recommend the Firm comply with its audit documentation policy to staff performing and reviewing single audits to ensure these projects are documented in accordance with GAGAS, and report as a finding and recommendation the late Federal Audit Clearinghouse (FAC) submissions in the FY 2013 single audit report. In October 2013, the Employment and Training Administration (ETA) resolved and closed SC DEW's FY 2012 recommendations. Therefore, SC DEW will not need to resubmit a corrective action plan. However, SC DEW does need to ensure for future single audit reports that corrective action plans include anticipated completion dates for each recommendation.

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 the 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: Mr. Donald J. Mobley, Managing Partner, Scott and Company LLC

Mr. Stephen Daniels, Director, Division of Policy, Review, and Resolution, ETA

Ms. Julie Cerruti, Audit Liaison, ETA

Ms. Jennifer Richards, Audit Liaison, ETA

Enclosure

Recovery Act: Quality Control Review
Single Audit of the South Carolina Department of Employment and Workforce
for the Year Ended June 30, 2012
(18-14-003-03-315)

Introduction

The Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996, created a single organization-wide financial and compliance audit requirement 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 May 24, 2013, the Firm issued a single audit report of SC DEW's financial statements, Schedule of Expenditures of Federal Awards (SEFA), and reports required by GAGAS and A-133 for the year ended June 30, 2012.

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
UI	17.225		\$692,386,782
TAA	17.245		\$9,333,284
	17.258		
WIA Cluster	17.259		
	17.278		\$51,123,961
	17.258		
Recovery Act – WIA Cluster	17.259		
	17.278	\$1,161,255	
Subtotals		\$1,161,255	\$752,844,027
Total DOL Major Funds Reported as Expended			\$754,005,282

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 Board's website www.recovery.gov.

Objectives

The objectives of the QCR were to determine if: (1) the audit was conducted in accordance with applicable standards, including GAGAS and GAAS, and met the requirements of A-133; (2) there are any issues that may require management's attention; and (3) any follow-up work is needed to support the opinions contained in the audit report.

Results

We found the audit was conducted in accordance with applicable standards and met Single Audit Act requirements. However, we noted improvements are needed to the Firm's audit documentation preparation and review, and several reporting deficiencies require management's attention and necessitate follow-up work. Specifically, we found the report's audit work needed improvement because the Firm did not always maintain complete and clear audit documentation as required by GAGAS, and did not report that FYs 2010, 2011, and 2012 reporting packages were submitted late to the FAC. In addition, SC DEW did not submit a corrective action plan that included anticipated completion dates for each finding and recommendation.

Finding 1 — The Firm met OMB A-133 and GAGAS requirements with audit documentation, but improvements are needed.

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

1. completeness of databases and the sampling methodology, including sample size used in internal control compliance testing, and compliance with laws, regulations, and grant agreements testing was appropriate;
2. documentation of supporting details for each expenditure reported in the SEFA;
3. the proper disposition of an exception; and,
4. documentation of a conclusion on internal control over compliance testing, and compliance with laws, regulations, and grants.

The Firm used a single audit software program to document its audit work that included proforma audit documents for compliance testing. This software program followed OMB A-133 and other guidance. The proforma audit documents led to supporting detailed audit documentation. The supporting detailed audit documentation demonstrated testing and analysis had been performed and conclusions reached. However, the Firm did not prepare proforma audit documents for each compliance test. In other instances,

supporting detailed audit documentation was incomplete in its analysis and conclusion. Yet in other instances, audit documentation was not clearly linked to supporting detailed audit documentation. In each instance, these audit documents were reviewed, but the supervisory review did not identify the incomplete and unclear audit documents.

GAGAS, paragraph 4.19, partly states, in part:

Under AICPA [American Institute of Certified Public Accountants] standards and GAGAS, auditors must prepare audit documentation in connection with each audit...that enables an experienced auditor, having no previous connection to the audit, to understand:

- a. the nature, timing, and extent of auditing procedures performed to comply with GAGAS and other applicable standards and requirements;
- b. the results of the audit procedures performed and the audit evidence obtained; ...
- d. that the accounting records agree or reconcile with the audited financial statements or other audited information.

According to the Firm, documentation was in the files to support completeness of the databases and sample size. However, this information was not clearly linked from the testing to the detailed support. Additionally, detailed audit documentation supported the SEFA, but was difficult to follow without assistance from the auditor. Further, the Firm stated the dispositions on an exception and the testing conclusions were oversights and it provided revised audit documentation. In each instance, the Firm was able to provide verbal information and audit documentation that had not originally been referenced as support for its audit work and we were able to determine that the audit work supported the single audit report. The Firm should have documented its work so a reviewer not familiar with the audit could understand the work performed.

The Firm needs to comply with its audit documentation policy when performing and reviewing single audits to ensure single audit projects are documented in accordance with GAGAS. The lack of documented explanations and referencing regarding how compliance and internal control testing were conducted and how this work formed the basis for the Firm's conclusions could raise questions regarding the auditor's understanding of the testing performed and the conclusions reached.

Finding 2 — SC DEW submitted its annual reporting packages late to the FAC and the Firm did not report this as a finding and recommendation.

For three consecutive years — FYs 2010, 2011, and 2012 — SC DEW did not submit the single audit reports and the data collection forms to the FAC by the required due dates. The reports were late for the first two years by two and one-half months and for

the third year by almost three months. According to the Firm, it discussed this point with the State Auditor of South Carolina since it had also submitted A-133 single audit reports late. The State Auditor advised that it did not report the late filing of the South Carolina Single Audit Report² as a finding because the late filing was caused by the State Auditor's office, not the auditee. In contrast, the Firm indicated SC DEW's Single Audit Report's lateness occurred because SC DEW maintained its information in two accounting systems, which necessitated extensive reconciliation to the required Federal Accounting Reporting System. This extensive reconciliation process delayed providing the Firm with timely and accurate information. Ultimately, the Firm decided the reports' lateness would be obvious to the FAC since reports are dated when accepted, and therefore, a formal written recommendation was not needed. In addition, the Firm informed SC DEW that because of the late filing, the auditee would be considered high risk, which it was deemed already. Thus the Firm determined the late filing was not a reportable issue because the FAC submission date was already reflected by the Single Audit's late filing and there was no effect on the audit. The FY 2013 Single Audit was due by March 31, 2014 and was accepted by the FAC on May 15, 2014 making the its submission late. The Firm reported the late filings for FYs 2010, 2011, 2012 and 2013 as a finding and recommendation in the FY 2013 Single Audit.

A-133, Section 320(a), requires completion of the audit and submission of the reporting package no later than nine months after the end of the audit period. The Firm should have reported the late filings as additional findings and recommendations annually. Without inclusion of these findings and recommendations, there is potential for the auditors to not deem the auditee as high risk and therefore not conduct the necessary audit testing. Further, the single audit report should stand on its own and include all findings, even those that could be apparent by other means.

Finding 3 — SC DEW's Corrective Action Plan did not include anticipated completion dates.

In its written response to the FY 2012 single audit recommendations, SC DEW did not include required anticipated completion dates for corrective actions. Of the three recommendations, SC DEW's response to one indicated action would be taken in the future without specifying a date. For the remaining two recommendations, SC DEW made no mention of any anticipated completion dates.

SC DEW stated that it was unaware that providing a completion date was a requirement for each recommendation. As of October 2013, ETA had resolved these recommendations. The resolved recommendations indicated that ETA had reviewed documentation including a written response from SC DEW. ETA was satisfied that controls were in place to prevent one recommendation from reoccurring. For the remaining two recommendations, ETA was satisfied that plans and processes will be in place by December 2014.

² The oversight agency for the State of South Carolina Single Audit Report is the U.S. Department of Health and Human Services.

A-133, Section 315(c), requires the auditee’s corrective a plan to address each finding and include anticipated completion dates. SC DEW should have included an anticipated completion date in its written response to the recommendations.

Recommendations

We recommend the Firm:

1. Comply with its audit documentation policy when performing and reviewing single audits to ensure single audit projects are documented in accordance with GAGAS.
2. Ensure SC DEW submits a reporting package for FY 2013 that as of March 31, 2014, was late; and reports the late FAC submissions for FYs 2010, 2011, 2012, and 2013, as a finding and recommendation.

We recommend SC DEW:

3. Ensure future single audits submitted to FAC include in the corrective action plan anticipated completion dates for each reported recommendation.

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 for making recommendations for follow-up action. Major inadequacies shall be referred to appropriate state licensing agencies and professional bodies for disciplinary action.

Firm’s and State’s Responses

Both the Firm and SC DEW agreed with the recommendations and provided their plans to address each of them. See Appendices D and E for the Firm’s and SC DEW’s complete responses to our report.

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Appendices

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Appendix A

Background

The Single Audit Act of 1984 (Act) 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 performed by the Firm of the SC DEW's financial statements, SEFA, and reports required by GAGAS and A-133 for the year ended June 30, 2012.

For the year ended June 30, 2012, SC DEW reported expenditures of about \$754 million that were entirely DOL awards, of which about \$1.2 million was reported as attributable to the Recovery Act.

The Recovery Act was signed into law on February 17, 2009, initially set to end September 2013, it was extended through September 30, 2015. The stated purposes of the Recovery Act were 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 required agencies to implement an unprecedented level of transparency and accountability to ensure the public can see where and how their tax dollars were being spent. The Board was established by the Recovery Act, Congress, and OMB to oversee and monitor implementation of the Recovery Act through periodic reporting on the use and expenditure of funds. We were 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 if:

1. the audit was conducted in accordance with applicable standards including GAGAS and GAAS and met the requirements of A-133;
2. there are any issues that may require management's attention; and
3. any follow-up work is needed to support the opinions contained in the audit report.

Scope

We performed a QCR of the Firm's single audit of SC DEW's financial statements, SEFA, and reports required by GAGAS and A-133 for the year ended June 30, 2012. As part of the QCR, we included review of the single audit reports issued by SC DEW and the Firm for the year ended June 30, 2012, as well as the single audit reports for the years ended June 30, 2011, and 2010, to identify systemic issues. We performed our work at the offices of the Firm at 1441 Main Street, Suite 800, Columbia, SC.

Our review included the following DOL major programs:

DOL Major Programs Reviewed			
Major Program	CFDA Number	Recovery Act Funds Reported as Expended	DOL Major Funds Reported as Expended
UI	17.225		\$692,386,782
TAA	17.245		\$9,333,284
	17.258		
WIA Cluster	17.259		
	17.278		\$51,123,961
	17.258		
Recovery Act-WIA Cluster	17.259		
	17.278	\$1,161,255	
Subtotals		\$1,161,255	
			\$752,844,027
Total DOL Major Funds Reported As Expended			\$754,005,282

Methodology

We reviewed the audit report using the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Guide for Desk Reviews of A-133 Audit Reports (Desk Guide). The Desk Guide was developed to ensure compliance with the requirements of the Single Audit Act, Single Audit Act Amendments of 1996, and A-133. We focused our review on the report's qualitative aspects of: (1) due professional care; (2) auditors' qualifications and independence; (3) financial statements, compliance, and internal control reporting; (4) SEFA; and (5) Schedule of Findings and Questioned Costs.

Using the CIGIE Uniform Guide for QCRs of 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 GAGAS 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.

Criteria

- A-133
- 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
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CFDA	Catalog of Federal Domestic Assistance
Desk Guide	CIGIE Guide for Desk Reviews of A-133 Audit Reports
DOL	Department of Labor
ETA	Employment and Training Administration
FAC	Federal Audit Clearinghouse
Firm	Scott and Company LLC
FY	Fiscal Year
GAAS	Generally Accepted Auditing Standards
GAGAS	Generally Accepted Government Auditing Standards
OIG	Office of Inspector General
OMB	Office of Management and Budget
QCR	Quality Control Review
QCR Guide	CIGIE Uniform QCR Guide for A-133 Audits
Recovery Act	American Recovery and Reinvestment Act
SC DEW	South Carolina Department of Employment and Workforce
SEFA	Schedule of Awards of Federal Expenditures
TAA	Trade Adjustment Assistance
UI	Unemployment Insurance
WIA	Workforce Investment Act

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Firm's Response to Draft Report

SCOTT  **COMPANY**
= not your average accounting firm
.....
COLUMBIA • GREENVILLE

July 16, 2014

Elliot P. Lewis
Assistant Inspector General for Audit

Re: Scott and Company LLC's Response to OIG's QCR of SC DEW for 6/30/12

Dear Mr. Lewis:

Please find below the responses of Scott and Company LLC (the "Firm") to your agency's findings as a result of its Quality Control Review ("QCR") of the Single Audit of the South Carolina Department of Employment and Workforce ("SC DEW") for the year ended June 30, 2012.

Finding 1 - The Firm met OMB A-133 and GAGAS requirements with audit documentation but improvements are needed.

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

1. completeness of databases and the sampling methodology, including sample size used in internal control compliance testing, and compliance with laws, regulations, and grant agreements testing was appropriate;
2. documentation of supporting details for each expenditure reported in the SEFA;
3. the proper disposition of an exception; and,
4. documentation of a conclusion on internal control over compliance testing, and compliance with laws, regulations, and grants.

Response to Finding 1:

We agree with the finding and have been and will be taking steps to prevent such findings in the future by improving audit documentation as follows:

1. Completeness of databases and sampling methodology – For each major program we will ensure that we clearly document that the general ledger detail agrees to the amount of expenses being reported on the SEFA for each program. We will document our sample sizes by including the PPC sampling forms in our working papers which documents sample size as well as the sampling methodology used.

Scott and Company LLC
CERTIFIED PUBLIC ACCOUNTANTS

scottandco.com

.....
1441 Main Street, Suite 800
Post Office Box 8388
Columbia, South Carolina 29202
.....
TEL (803) 256-6021 | FAX (803) 256-8346

.....
115 Whitsett Street
Greenville, South Carolina 29601
.....
TEL (864) 232-1545 | FAX (864) 232-4637

2. We will ensure that our audit documentation consists of reconciliations of our client's trial balances to the expenses shown on the SEFA. We will ensure that this documentation is clear and concise so that an experienced auditor having no knowledge of our client can understand and follow this reconciliation without our assistance.
3. We will ensure that the resolutions of all exceptions to findings in our test work are properly documented. In the event that an exception is noted, this will be linked to the conclusion on the work paper tested and will then be shown as a finding in the Single Audit report. If an exception is noted but is subsequently cleared by the client, we will clearly indicate that such an exception has been disposed of and conclude clearly that there is no exception.
4. We will ensure that all documentation of test work on internal controls over compliance as well as compliance with laws, regulations, and grants, indicates a clear and concise conclusion to the work performed. Each of our work papers will document the purpose of our testing, the procedures performed, and the conclusion reached as a result of those procedures performed.

Finding 2 — SC DEW submitted its annual reporting packages late to the FAC and the Firm did not report this as a finding and recommendation.

Response to Finding 2:

We agree with your finding that we did not report as a finding, in our single audit reports for years ending June 30, 2010, 2011, and 2012, that DEW was late filing its annual reporting packages to the FAC. For the year ending June 30, 2013, DEW also submitted its annual reporting package late to the FAC. In response to this, we did report a finding in our single audit report dated April 28, 2014 for the year ended June 30, 2013, regarding the reporting package being late to the FAC. In this finding, we reported that DEW did not file its annual reporting package on time for the years ended June 30, 2010, 2011, and 2012. We believe that we have now adequately reported the lateness of the submissions for years ended June 30, 2010, 2011, 2012, and 2013.

Finding 3 was directed to SC DEW so we have not issued a response to it. Thank you again for your feedback during and after your QCR. Let us know if we can be of any further assistance in this matter.

Sincerely,



Donald J. Mobley
Managing Member, Columbia Office
Scott and Company LLC

SC DEW's Response to Draft Report

P.O. Box 995
1550 Gadsden Street
Columbia, SC 29202
dew.sc.gov



Nikki R. Haley
Governor
Cheryl M. Stanton
Executive Director

July 14, 2014

**South Carolina Department of Employment and Workforce
Response to Rpt. No. 18-14-003-03-315**

The South Carolina Department of Employment and Workforce respectfully submits the following response to the OIG draft Quality Control Review (QCR) report (Report Number 18-14-003-03-315), recommendation number 3:

Finding 3: SC DEW's Corrective Action Plan did not include anticipated completion dates.

OIG Recommendation: Ensure that future single audits submitted to FAC include in the correction action plan with findings and recommendations the anticipated completion dates for each reported finding and recommendation.

Management's Response:

The agency's corrective actions with respect to the accounting and reporting recommendations were already implemented as of the date of the independent auditor's report issuance. In addition, the unavailability of additional funding for the information technology initiatives did not provide reasonable certainty of the future date by which they could be fully implemented. However, the agency understands that these dates should be estimated and included when responding to future audit comments, and commits to ensuring their inclusion going-forward.

If there are any questions, or if additional information is needed, please contact Don Grant, CPA, Chief Financial Officer, at (803) 737-0367.

Sincerely,

A handwritten signature in black ink that reads "Cheryl M. Stanton".

Cheryl M. Stanton
Executive Director

TO REPORT FRAUD, WASTE OR ABUSE, PLEASE CONTACT:

Online: <http://www.oig.dol.gov/hotlineform.htm>
Email: hotline@oig.dol.gov

Telephone: 1-800-347-3756
202-693-6999

Fax: 202-693-7020

Address: Office of Inspector General
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