

U.S. Department of Labor

Office of Inspector General—Office of Audit

**SINGLE AUDIT
QUALITY CONTROL REVIEW**



**QUALITY CONTROL REVIEW:
SINGLE AUDIT OF THE SEATTLE-KING
COUNTY WORKFORCE DEVELOPMENT
COUNCIL AUDITOR'S REPORTS AND
FINANCIAL STATEMENTS FOR THE YEAR
ENDED JUNE 30, 2005**

Date Issued: August 8, 2008
Report Number: 24-08-007-03-390



Assistant Inspector General’s Report

Ms. Kris Stadelman
Chief Executive Officer
Seattle-King County Workforce Development Council
Suite 250
2003 Western Avenue
Seattle, WA 98121

Dear Ms. Stadelman:

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 Francis and Company, PLLC (the Firm), under the Federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133 (A-133):

Single Audit of the Seattle-King County Workforce Development Council (WDC) Auditor’s Reports and Financial Statements for the year ended June 30, 2005

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) the Firm needed to perform any additional work related to the audit; and (3) the Firm needed to revise its audit procedures to improve the quality of future audits.

Our review included the following major programs:

Program	Catalog of Federal Domestic Assistance (CFDA) Number
Workforce Investment Act (WIA) Cluster	17.258 (WIA Adult)
	17.259 (WIA Youth)
	17.260 (WIA Dislocated Workers)
H-1B Skills Training Program	17.261
Youth Opportunity	17.263

We determined that the audit work performed was acceptable and met the requirements of the Single Audit Act and A-133. No additional work is required related to the audit we reviewed. However, we noted issues requiring management’s attention to improve the quality of future audits. Specifically, the Firm did not: (1) accurately report the amount used to determine high dollar programs and (2) report internal control deficiencies in

accordance with Generally Accepted Government Auditing Standards (GAGAS).
Details on the results of our review are provided in the Enclosure.

Sincerely,



Elliot P. Lewis
Assistant Inspector General
for Audit

Enclosure

cc: Horace C. Francis, Francis and Company, PLLC

Edward J. Donahue, Jr., Division of Policy, Review, and Resolution,
Employment and Training Administration

Enclosure

**Quality Control Review:
Single Audit of the Seattle-King County Workforce Development Council
Auditor’s Reports and Financial Statements
for the year ended June 30, 2005
(24-08-007-03-390)**

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 October 23, 2005, Francis and Company issued a single audit report on the financial statements of the Seattle-King County Workforce Development Council as of June 30, 2005.

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

Program	Catalog of Federal Domestic Assistance (CFDA) Number
Workforce Investment Act (WIA) Cluster	17.258 (WIA Adult)
	17.259 (WIA Youth)
	17.260 (WIA Dislocated Workers)
H-1B Skills Training Program	17.261
Youth Opportunity	17.263

Objectives

Our objectives were to determine whether: (1) the audit was conducted in accordance with applicable standards and met the single audit requirements; (2) the Firm needed to perform any additional work related to the audit; and (3) the Firm needed to revise its audit procedures to improve the quality of future audits.

Results

We determined that the audit work performed was acceptable and met the requirements of the Single Audit Act and A-133. No additional work is required related to the audit we reviewed. However, we noted issues requiring management’s attention to improve the quality of future audits. Specifically, the

Firm did not: (1) accurately report the amount used to determine high dollar programs and (2) report internal control deficiencies in accordance with GAGAS.

Single Audit Requirements

1. Firm did not follow A-133 for reporting the Type A threshold

The Firm did not accurately report the threshold for valuing Type A programs. Although the Firm correctly calculated the threshold as \$791,930, it reported the Type A threshold as \$300,000 in the Schedule of Findings and Questioned Costs and to the Federal Audit Clearinghouse. The Firm attributed the condition to an oversight.

Federal Audit Clearinghouse Instructions require the auditor to report the threshold amount used to determine Type A programs to the Federal Audit Clearinghouse. A-133, Subpart C—Auditees, Section 320, Report submission, states that the threshold is used in determining the programs to select for audit and that is to be reported to the Federal Audit Clearinghouse. A-133, Subpart E—Auditors, Section 505(d), Audit reporting, requires reporting the threshold in the Schedule of Findings and Questioned Costs.

Although the incorrect reporting had no effect on the work performed by the Firm, it resulted in incorrect information being maintained on a Federal database used to analyze information from all single audits.

Reporting

2. Firm did not follow GAGAS for reporting deficiencies in internal controls

The Firm did not report internal control deficiencies in accordance with GAGAS. The audit documentation inferred the Firm verbally reported certain internal control deficiencies pertaining to subcontractor accruals, bank accounts, and petty cash. However, the audit documentation did not contain evidence of when or to whom the deficiencies were reported to management.

The Firm stated it believed the conditions noted were inconsequential and did not warrant reporting in a management letter. The Firm further informed us it verbally conveyed the information to the Chief Executive Officer, Chief Operating Officer, and Controller on November 28, 2005.

The 2003 revision of *Generally Accepted Government Auditing Standards*, paragraph 5.16, states:

When auditors detect deficiencies in internal control that are not reportable conditions, they should communicate those deficiencies

separately in a management letter to officials of the audited entity unless the deficiencies are clearly inconsequential considering both quantitative and qualitative factors . . . Auditors should use their professional judgment in deciding whether or how to communicate to officials of the audited entity deficiencies in internal control that are clearly inconsequential. Auditors should include in their audit documentation evidence of all communications to officials of the audited entity about deficiencies in internal control found during the audit.

Since the Firm did not document to whom or when it communicated the internal control deficiencies, the reporting requirements of GAGAS were not met.

Recommendations

We recommend the Firm:

1. Correct the information recorded in the Federal Audit Clearinghouse and notify the users of the Schedule of Findings and Questioned Costs of the correct amount of the threshold.
2. Report internal control deficiencies and include in the audit documentation to whom and when it communicated the internal control deficiencies in order to comply with GAGAS reporting requirements on future A-133 engagements.

Firm's Response

In response to the recommendations, the Firm agreed the lower threshold amount was reported due to an oversight and stated it has corrected the amount on the Federal Audit Clearinghouse database. The Firm also considered possible users of the report, but did not consider any notification was necessary. Regarding internal control reporting deficiencies, the Firm responded that the circumstances relating to the items in question were judged during the audit to be inconsequential, but they were verbally communicated to management. The Firm said it documented the communication in its working papers but did not identify the management personnel involved. The Firm agreed to ensure it includes more complete documentation of verbal communication in the work papers. See Appendix D for the agency's complete response to our draft report.

OIG's Conclusion

Based on the Firm's response, we consider recommendation 2 to be closed. Recommendation 1 is resolved and will be closed upon receipt of documentation to support that the Federal Audit Clearinghouse database has been properly updated.

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 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 Seattle-King County Workforce Development Council for the year ended June 30, 2005, completed by Francis and Company, PLLC.

The Seattle-King Workforce Development Council began operating on July 1, 2000, as a nonprofit corporation in the State of Washington. The Council replaced the Seattle King County Private Industrial Council, under the Workforce Investment Act of 1998, as the Department of Labor pass-through agency to receive the employment and training funds for the Seattle-King County area. The Council is dedicated to producing a competitive workforce and a competitive local economy. The Council serves as a research and development center for workforce issues, sharing its expertise with the community and leading partnerships. The Council invests and participates in strategic initiatives to strengthen the economy and ensure that residents have the opportunity to achieve success. For the year ending June 30, 2005, the Council expended about \$26.4 million in Federal awards, of which \$25.1 million was attributable to DOL.

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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. the Firm needed to perform any additional work related to the audit; and
3. the Firm needed to revise its audit procedures to improve the quality of future audits.

Scope

We performed a QCR of the single audit of the Seattle-King County Workforce Development Council for the year ended June 30, 2005, at the offices of Francis and Company, PLLC, located at 701 Dexter Avenue North, Suite 404, Seattle, Washington, from April 28, 2008 to May 2, 2008.

Our review included the following major programs:

Program	Catalog of Federal Domestic Assistance (CFDA) Number
Workforce Investment Act (WIA) Cluster	17.258 (WIA Adult)
	17.259 (WIA Youth)
	17.260 (WIA Dislocated Workers)
H-1B Skills Training Program	17.261
Youth Opportunity	17.263

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 audit manager to accomplish the required steps. The Guide was developed to test for compliance with GAGAS 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

Criteria

Generally Accepted Government Auditing Standards

Guidance on GAGAS Requirements for Continuing Professional Education

Single Audit Act of 1984

Single Audit Act Amendments of 1996

OMB Circular A-133

Acronyms and Abbreviations

A-133	Office of Management and Budget Circular A-133
CFDA	Catalog of Federal Domestic Assistance
DOL	Department of Labor
GAGAS	Generally Accepted Government Auditing Standards
OIG	Office of Inspector General
OMB	Office of Management and Budget
QCR	Quality Control Review
WDC	Workforce Development Council
WIA	Workforce Investment Act

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Independent Public Accountant Response To Draft Report



FRANCIS & COMPANY PLLC

August 1, 2008

US Department of Labor
Office of Inspector General
Washington DC 20210

On May 2, 2008 the U.S. Department of Labor, Office of Inspector General (OIG), completed a Quality Control Review of the following audit completed by Francis and Company, PLLC under the Federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133 (A-133):

Single Audit of the Seattle-King County Workforce Development Council (WDC)
Auditor's Reports and Financial Statements for the year ended June 30, 2005.

The results of the Quality Control Review identified two items for our firm's management attention. Below is our response to those items:

1. Firm did not follow A-133 for reporting the Type A threshold

We agree that due to an oversight, the lower threshold amount for Type A programs was reported in the summarized Schedule of Findings and Questioned Costs. As discussed in the OIG report, the correct threshold amount was documented in our audit work papers along with related audit work.

We corrected the amount on the Federal Audit Clearinghouse database. We considered possible users of the report and do not consider notification necessary.

2. Firm did not follow GAGAS for reporting deficiencies in internal controls

In accordance with GAGAS, the circumstances relating to these items were judged during the audit to be inconsequential, and the items were noted in the work papers that they were verbally communicated to management. Though we agree that the names or positions of the specific management personnel were not identified in the work papers, the audit entity is a small organization, and the management consisted of the Chief Executive Officer, Chief Operating Officer, and Controller, who were all informed during the exit conference.

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CERTIFIED PUBLIC ACCOUNTANTS • MANAGEMENT CONSULTANTS

We will make sure there is more complete documentation in the work papers, of verbal communication.

Sincerely,



Horace Francis, CPA