

# U.S. Department of Labor

Office of Inspector General—Office of Audit

## **SINGLE AUDIT QUALITY CONTROL REVIEW**



### **QUALITY CONTROL REVIEW: SINGLE AUDIT OF THE CONSORTIUM FOR WORKER EDUCATION FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 AND  
SUPPLEMENTARY INFORMATION OF FEDERAL AWARDS  
PROGRAMS FOR THE YEAR ENDED  
DECEMBER 31, 2004**

**Date Issued: December 10, 2008  
Report Number: 24-09-002-03-001**

U.S. Department of Labor

Office of Inspector General  
Washington, DC. 20210



December 10, 2008

### Assistant Inspector General's Report

Mr. Joseph McDermott  
Executive Director  
Consortium for Worker Education  
275 Seventh Avenue  
18<sup>th</sup> Floor  
New York, NY 10001

Dear Mr. McDermott:

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, Office of Inspector General (OIG), conducted of the following audit performed by Scott Gildea & Company, LLP (the Firm) under the Federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133 (A-133):

Single Audit of the Consortium for Worker Education (CWE) Financial Statements for the years ended December 31, 2004 and 2003 and Supplementary Information of Federal Awards Programs for the year ended December 31, 2004

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.

Our review included the following major programs:

Program	Catalog of Federal Domestic Assistance (CFDA) Number
Welfare-to-Work	17.253
Workforce Investment Act (WIA) Dislocated Workers	17.260
WIA Pilots, Demonstrations, and Research Projects	17.261

We determined that the work performed was not acceptable and did not meet the requirements of the Single Audit Act and A-133. Specifically, the Firm did not: (1) include CWE audits for consideration in its 2003 peer review and make an accurate representation to the peer reviewer; (2) adequately plan and document its review of internal controls for each major program; (3) perform sufficient work to render an opinion on each major program; and (4) mention a management letter in the audit report. Since the audit performed was not acceptable, additional work would be required in order for the audit to meet the requirements of the Single Audit Act and A-133. Further, the issues listed above require CWE's attention to either work with the auditor on correcting the deficiencies, or procure a new audit for the same time period.

A-133, Subpart D - Federal Agencies and Pass-Through Entities, Section (400)(a)(5), requires referrals when audit work is substandard or for a pattern of technically deficient audits. The deficiencies noted necessitate that our office refer this audit to the Professional Ethics Division of the *American Institute of Certified Public Accountants* and the New York, State Education Department, Office of the Professions.

While the Firm disagreed with the findings, CWE and the Firm agreed to work together to produce an acceptable audit.

Sincerely,



Elliot P. Lewis  
Assistant Inspector General  
for Audit

Enclosure

cc: Scott Gildea, Partner, Scott Gildea & Company, LLP

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

**Enclosure**

**Quality Control Review:  
Single Audit of the Consortium for Worker Education Financial Statements  
For the Years Ended December 31, 2004 and 2003  
and Supplementary Information of Federal Awards Programs  
for the Year Ended December 31, 2004  
(24-09-002-03-001)**

**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. The June 27, 2003, revision to A-133 raised this threshold to \$500,000 for fiscal years ending after December 31, 2003.

On November 9, 2005, the Firm issued a single audit report on the CWE financial statements, for the years ended December 31, 2004 and 2003, and Supplementary Information of Federal Awards Programs for the year ended December 31, 2004.

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

Program	Catalog of Federal Domestic Assistance (CFDA) Number
Welfare-to-Work	17.253
Workforce Investment Act (WIA) Dislocated Workers	17.260
WIA Pilots, Demonstrations, and Research Projects	17.261

**Objectives**

Our 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.

## **Results**

We determined that the audit work performed was not acceptable and did not meet the requirements of the Single Audit Act and A-133. Specifically, the Firm did not: (1) include CWE audits for consideration in its 2003 peer review and make an accurate representation to the peer reviewer; (2) adequately plan and document its review of internal controls for each major program; (3) perform sufficient work to render an opinion on each major program; and (4) mention a management letter in the audit report. Since the audit performed was not acceptable, additional work would be required related to the audit we reviewed to meet the requirements of the Single Audit Act and A-133 and requires CWE's attention to either work with the auditor on correcting the deficiencies, or procure a new audit for the same time period.

A-133, Subpart D - Federal Agencies and Pass-Through Entities Responsibilities, Section (400)(a)(5), cognizant agency for audit responsibilities, requires referrals when audit work is substandard or for a pattern of technically deficient audits. The deficiencies noted necessitates that our office refer this audit to the Professional Ethics Division of the *American Institute of Certified Public Accountants* for review and possible action, and the New York, State Education Department, Office of the Professions.

## **Quality Control**

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### **1. The Firm excluded CWE audits from consideration for its 2003 peer review and misrepresented its work to the peer reviewer.**

The Firm stated that it did not include the CWE audits in a list of reports submitted to the reviewers for its 2003 peer review of its accounting practice for the year ended December 31, 2002. The Firm said that it submitted reports for only private companies to the peer review team. The Federal Audit Clearinghouse website indicates that CWE was a client of the Firm from 1997 through 2005, and of Scott Gildea and Ivanis LLP, for 2006. The peer review report stated, "Scott Gildea & Company, LLP has represented to me that the firm performed no services under the Statements on Auditing Standards..." However, the audit of CWE for the audit they performed during 2002 stated, "We conducted our audit in accordance with auditing standards generally accepted in the United States of America..." The reliability of the peer review is questionable because the review did not represent a reasonable cross section of the assignments performed by the Firm.

Generally Accepted Government Auditing Standards (GAGAS), Chapter 3, paragraph 3.54, states, in part:

- b. The review team should use one of the following approaches to selecting audits and attestation engagements for review: (1) select audits and attestation engagements that provide a reasonable cross section of

the assignments performed by the reviewed audit organization in accordance with GAGAS or (2) select audits and attestation engagements that provide a reasonable cross section of the reviewed audit organization's work subject to quality control requirements, including one or more assignments performed in accordance with GAGAS.

c. The peer review should be sufficiently comprehensive to provide a reasonable basis for concluding whether the reviewed audit organization's system of quality control was complied with to provide the organization with reasonable assurance of conforming with professional standards in the conduct of its work. The review team should consider the adequacy and results of the reviewed audit organization's monitoring efforts to efficiently plan its peer review procedures.

## **Planning**

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### **2. The Firm did not adequately document the planning and testing of internal controls for each major program.**

#### Inadequately Documented Planning

The Firm's audit working papers did not support that it had established universes for testing of internal controls and 12 applicable compliance requirements.<sup>1</sup> In the absence of established universes, the Firm could not demonstrate whether the related samples were representative and provided sufficient evidence to support its opinion on compliance.

American Institute of Certified Public Accountants (AICPA), May 2003, AICPA Audit Guide-Government Auditing Standards and Circular A-133 Audits Audit sampling, paragraph 6.47 states, in part:

If the auditor chooses to select audit samples from the entire universe of major program transactions, the audit documentation should be presented in such a fashion that they clearly indicate that the results of such samples, together with other audit evidence, are sufficient to support the opinion on each major program's compliance.

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<sup>1</sup> Activities Allowable or Unallowable, Allowable Costs/Costs Principles, Cash Management, Eligibility, Equipment and Real Property Management, Matching Level of Effort, Earmarking, Period of Availability of Federal Funds, Procurement and Suspension and Debarment, Program Income, Reporting, Subrecipient Monitoring, and Special Tests and Provisions.

### Inadequately Documented Compliance Testing

The Firm's compliance testing for the programs was not accomplished in accordance with the recommended testing requirements in the A-133 Compliance Supplement of March 2004. The Firm stated it performed dual testing of internal controls and applicable compliance requirements. However, the audit documentation did not include evidence that the Firm performed testing of internal controls sufficient to (1) support a low assessed level of control risk for the assertions relevant to each material compliance requirement for the program, and (2) enable the Firm to reach a conclusion on the effectiveness of internal controls for preventing or detecting noncompliance relevant to the material compliance requirements for the major programs.

The Firm stated that its sampling methodology was based on high dollar stratification, and then judgmentally based upon whatever appeared to be an anomaly. The Firm further stated that all Federal programs were tested as one and samples were judgmentally selected. Without supporting documentation in the working papers, the Firm could not demonstrate whether the related samples were representative or provided sufficient evidence to support the Firm's opinion on internal controls and compliance.

A-133, Subpart E - Auditors, Section 500(c), Scope of audit - Internal control, states, in part:

(2) Except as provided in paragraph (c)(3) of this section, the auditor shall:

(i) Plan the testing of internal control over major programs to support a low-assessed level of control risk for the assertions relevant to the compliance requirements for each major program; and

(ii) Perform testing of internal control as planned in paragraph (c)(2)(i) of this section.

The AICPA Professional Standards AU§350.24 states, in part:

Sample items should be selected in such a way that the sample can be expected to be representative of the population. Therefore, all items in the population should have an opportunity to be selected....

## **Determination and Testing of Major Programs**

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### **3. The Firm did not perform sufficient work to render the proper opinion on each major program.**

Review of audit documentation and discussions with the Firm disclosed that it did not perform sufficient work to render opinions on the major programs. The Firm made incorrect determinations regarding the applicability of requirements and did not perform adequate testing.

#### **Incorrect Determinations**

Although the Firm correctly identified all of the Compliance Supplement requirements, it made incorrect determinations regarding the applicability of two requirements. The Firm incorrectly determined that the Period of Availability of Federal Funds was not applicable for the three major programs. Conversely, the Firm incorrectly determined that the Davis Bacon Act was applicable. Since the Davis Bacon Act was not applicable to the programs audited, it could not possibly have been tested. These instances demonstrate the Firm's lack of knowledge of A-133 requirements.

The Compliance Supplement Matrix of March 2004 showed that the Period of Availability of Federal Funds should have been determined to be applicable to two of the major programs; and clearly labeled the Davis Bacon Act as not applicable to either program. The third major program was not listed on the Compliance Supplement Matrix.

The Firm told us it used its own interpretation of the compliance requirements and that it had not seen the Compliance Supplement Matrix that delineates the compliance requirements for CFDA's 17.253 and 17.260. Since the Firm determined the compliance requirement Period of Availability was not applicable to the three major programs, it failed to test compliance and, as a result, did not meet the requirements of A-133, Subpart E - Auditors, Section 500 (d) Scope of audit -Compliance, which states, in part:

...(3) For the compliance requirements related to Federal programs contained in the compliance supplement, an audit of these compliance requirements will meet the requirements of this part...(4) The compliance testing shall include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient evidence to support an opinion on compliance.

#### **Inadequate Testing**

The nature and extent of audit testing was inadequate to meet the audit objectives as identified in the Compliance Supplement for all material compliance requirements.



The Firm did not adequately document: the number of transactions tested for each compliance requirement; the attributes tested; and the outcomes of the tests. Of the 12 applicable compliance requirements, we determined that at least four<sup>2</sup> were not adequately tested and a fifth requirement was not tested because the Firm incorrectly determined it was not applicable<sup>3</sup>.

A-133 Subpart E - Auditors, Section 500 (d), Scope of audit – Compliance, states, in part: “. . . (4) The compliance testing shall include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient evidence to support an opinion on compliance.”

Our conclusion that the Firm did not perform sufficient audit work is further evidenced in an OIG conducted performance audit<sup>4</sup> of a CWE earmark grant that covered the same period as the Firm’s audits, April 1, 2002 through December 31, 2004. The CWE earmark grant amount was \$32.4 million, and we tested 85 percent of the total costs. The audit disclosed that 33 percent of recorded expenditures for the grant were not allowable or allocable. Further, CWE did not maintain a system to account for indirect costs in the general ledger. It directly charged costs to the grant that were also included in the indirect cost pool, which resulted in double charging. CWE was also unable to provide adequate documentation to support individual line items reported on the Grantee’s Detailed Statement of Costs in the Financial Status Report.

Further, when OIG auditors attempted to review the Firm’s audit documentation pertaining to the audits for the years ended December 31, 2002 and 2003, the Firm was unable to provide suitable documentation, and we concluded that the single audits were unreliable. The Firm said that the audit documentation for these reports were not reviewable. Only the first two pages of the 2003 Single Audit Guide were completed, and no single audit documentation was provided for the 2002 audit. The Firm said that it misplaced the documentation while in storage.

## Reporting

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### **4. The Firm did not mention a management letter in the audit report.<sup>5</sup>**

The Firm prepared a management letter that included five deficiencies, including the fact that two key CWE executives were the only people required to authorize, approve and report payments on a program, which created what appeared to be a

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<sup>2</sup> Cash management, Matching, Program income, and Subrecipient monitoring

<sup>3</sup> Period of Availability of Federal Funds

<sup>4</sup> Audit report number 02-08-203-03-390, Consortium For Worker Education Earmark Grant, dated February 29, 2008

<sup>5</sup> CWE Financial Statements for the Years Ended December 31, 2004 and 2003 and Supplementary Information of Federal Awards Programs for the Year Ended December 31, 2004, dated November 9, 2005

misappropriation of funds by these employees and was recorded in the financial statements as costs of the program. CWE included a note in the financial statements disclosing the \$2 million misappropriation of funds, but the Firm did not refer to the management letter in the single audit report, as required by GAGAS. Further, the Firm could not provide a signed copy of the letter. As a result, we could not determine if the management letter was issued to the auditee.

GAGAS, Chapter 5, Reporting Standards for Financial Audits, paragraph 5.20, states:

When auditors detect immaterial violations of provisions of contracts or grant agreements or abuse, they should communicate those findings in a management letter to officials of the audited entity unless the findings are clearly inconsequential considering both qualitative and quantitative factors. Auditors should refer to that management letter in their audit report on compliance. Auditors should use their professional judgment in determining whether and how to communicate to officials of the audited entity fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that is clearly inconsequential. Auditors should include in their audit documentation evidence of all communications to officials of the audited entity about fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse

### **Recommendation**

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1. We recommend CWE work with the auditor on correcting the deficiencies, or alternately procure a new audit for the same time period and reimburse any Federal funds that were used to procure the Scott Gildea & Company, LLP audit, in accordance with A-133, Subpart B - Audits, Section 225.

### **CWE's Response**

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In response to the recommendation, CWE stated it met all of its responsibilities and knew of no deficiencies in the audit methodologies, but that it would take all necessary steps within its control to ensure continued compliance with A-133. In a subsequent meeting between the OIG, the Firm, and CWE's attorney on November 3, 2008, the Firm and CWE agreed to produce an acceptable audit. CWE confirmed this in a November 12, 2008, letter. See Appendix D for CWE's responses to the report.

### **Firm's Response**

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In response to the recommendation, the Firm stated that none of the findings or comments have changed from the original draft report<sup>6</sup>. The Firm considered the report

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<sup>6</sup> A draft report was initially issued on June 6, 2006, and then updated and reissued on August 28, 2008.

to be in error both factually and in its conclusions regarding the Firm's adherence to auditing standards. The Firm provided specific responses to the findings and encouraged the OIG to revisit the matter, taking its responses into consideration.

At a meeting with the OIG, the Firm, and CWE's attorney on November 3, 2008, the Firm and CWE agreed to produce an acceptable audit. The Firm confirmed this in a November 11, 2008, letter. See Appendix E for the Firm's responses to the report.

### **OIG's Conclusion**

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Based on CWE's response, we consider the recommendation resolved. We will consider it closed after an acceptable audit is completed.

On November 7, 2008, the Firm informed the OIG that it had retrieved its audit documentation for the CWE 2004 audit from storage and that the documentation was approximately double the amount originally provided to the OIG when it performed the QCR in 2006. However, when the OIG requested to review the additional documentation the Firm denied the request. Because the Firm did not allow us the opportunity to review the additional audit documentation it claimed to have found, our findings remain unchanged.

## Appendices

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**APPENDIX A**

**Background**

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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 CWE Financial Statements for the years ended December 31, 2004, and 2003, and Supplementary Information of Federal Awards Programs for the year ended December 31, 2004, completed by Scott Gildea & Company, LLP.

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## Objectives, Scope, Methodology and Criteria

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### 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.

### Scope

We performed a QCR of the single audit of CWE Financial Statements for the years ended December 31, 2004, and 2003, and Supplementary Information of Federal Awards Programs for the year ended December 31, 2004, at the offices of Scott Gildea & Company, LLP, located at 500 Fifth Avenue, Suite 810, New York, NY 10110, from February 27, 2006 to March 3, 2006.

Our review included the following major programs:

Program	CFDA Number
Welfare-to-Work	17.253
Workforce Investment Act (WIA) Dislocated Workers	17.260
WIA Pilots, Demonstrations, and Research Projects	17.261

### Methodology

Using the Department of Labor-OIG's National Audit and Evaluations Office Uniform QCR Guide for A-133 Audits, we reviewed audit documentation and held discussions with the Firm's partner and staff 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
- Risk Evaluation
- Determination of Major Programs
- Schedule of Expenditures of Federal Awards
- Audit Follow-up
- Reporting
- Internal Control Over Major Programs
- Data Collection Form

**Criteria**

AICPA May 2003 AICPA Audit Guide-Government Auditing Standards

AICPA Auditing Standards

GAGAS 2003 Revision

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**

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A-133	Office of Management and Budget Circular A-133
AICPA	American Institute of Certified Public Accountants
CFDA	Catalog of Federal Domestic Assistance
CWE	Consortium for Worker Education
Firm	Scott Gildea & Company, LLP
GAGAS	Generally Accepted Government Auditing Standards
OIG	Office of the Inspector General
QCR	Quality Control Review
WIA	Workforce Investment Act
OMB	Office of Management and Budget

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Consortium for Worker Education Responses to Draft Report



**Consortium For Worker Education**  
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212.647.1900 | Fax 212.647.1915 | www.cwe.org

**Directors**  
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Chairman

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Secretary

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Jay Mazur

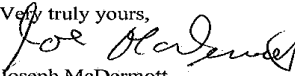
November 12, 2008


Mr. Robert J. Coyle  
U.S. Department of Labor  
Office of Inspector General  
Public Ledger Building Suite 1072  
150 S. Independence Mall West  
Philadelphia, PA 19106

Dear Mr. Lewis:

Reference is made to the November 3, 2008 meeting with you at the offices of Gildea and Ivanis, LLP (“Gildea”), at which Andrew S. Fisher was present on our behalf. We are working with Gildea & Ivanis LLP, our auditors for 2004, in an effort to produce an acceptable audit.

We are sure that when it is complete, Gildea and Ivanis will notify you of that fact.

Very truly yours,  
  
Joseph McDermott  
Executive Director





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**President Emeritus**

Jay Mazur

September 16, 2008

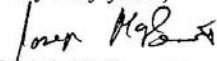
Mr. Elliott P. Lewis  
Assistant Inspector General for Audit  
U.S. Department of Labor Office of  
Inspector General  
Washington, D.C. 20210

Dear Mr. Lewis:

We have received your reissued Draft Report (Report Number 24-08-005-03-001) dated August 28, 2008. We have also received a copy of the response thereto of Gildea and Ivanis LLP ("Gildea"), our auditors during the period referred to in the Draft Report. We believe that as to the audit processes, CWE has met all of its responsibilities, and itself knows of no deficiencies in the audit methodologies.

We appreciate all of the assistance we anticipate receiving from you to bring this matter to closure. We will, of course, take all steps within our control necessary to insure continued compliance with A-133.

Very truly yours,

  
Joseph McDermott  
Executive Director

cc: Robert Coyle

**Independent Public Accountant Comments on the Draft Report**



Certified Public Accountants

November 11, 2008

Mr. Robert J. Coyle  
U.S. Department of Labor  
Office of Inspector General  
Public Ledger Building, Suite 1072  
150 S. Independence Mall West  
Philadelphia, PA 19106

Dear Mr. Coyle:

Pursuant to our meeting on November 3, 2008, resulting from our September 8, 2008 response to your reissued Draft Report dated August 28, 2008, we are working with Consortium for Worker Education to produce an acceptable audit.

Upon completion, we will notify you so you can complete your review.

Sincerely,

A handwritten signature in cursive script, appearing to read "Scott Gildea".

Scott Gildea

500 Fifth Avenue  
New York, NY 10110  
212-869-5700  
212-869-9556 fax



Certified Public Accountants

September 8, 2008

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

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New York, NY 10110  
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Dear Mr. Lewis:

We have received your reissued Draft Report (Report Number 24-08-005-03-001) dated August 28, 2008 and respond as set forth below. As a preliminary matter, I would call to your attention, that we have never received a response to the June 20, 2006 letter sent to your office, a copy of which is enclosed for your convenience.

A careful reading of your August 28, 2008 Reissued Draft Report demonstrates that none of the findings or comments have changed from your original draft report. We can only guess that our prior response on this matter has been ignored. Nevertheless, we consider the Draft Report to be in error both factually and in its conclusions as to our adherence to auditing standards.

The following are our specific responses to the proposed findings in the Draft Report and encourage you to revisit the matter taking our responses into consideration:

1. Quality Control

Your finding is inaccurate. Based upon the timing of our retention, the date when fieldwork started, and the date of the audit opinion, our audit of Consortium for Worker Education (“CWE”) was not required to be nor was it subjected to our firm’s peer review for 2002. As a result of your draft comment in June 2006, and to verify that our acts were within the standards of our profession, we sought the advice of the American Institute of Certified Public Accountants and our peer reviewer and delayed the start of our 2005 peer review until a date in 2006 so the CWE audit would be included. A copy of our peer review report (which was previously offered to your office) is enclosed.

Since CWE was not required to be part of our 2002 review, and since we altered the timing of future reviews to prevent a possible reoccurrence, we believe that it is easily determinable that your finding is incorrect.

2. Planning

Your review asserted that we did not document in our workpapers the universes to determine that the sample selected supported a low level of control risk for the assertions relevant to the compliance requirements for each major program and to the testing of internal controls.

To the contrary, our workpapers very clearly indicate the universe as 100% of the “draw-down worksheets” for the major Federal programs. All of the worksheets were reviewed and every transaction had an equal chance of selection, as is also indicated in the workpapers. A sample of 30 was drawn from each program. Because each program contained a large number of invoices that had charges to multiple programs, average sample sizes for each program approximated 100. In addition, because we had become aware of a theft by certain high-level employees of CWE, we expanded our selection process by applying judgment to certain vendors to determine no major Federal program had been affected.

Testing did not reveal any event of non-compliance. Coupling that with the fact that our samples were clearly representative of the population, we don’t understand how your review team did not recognize this, even after an explanation was furnished. Accordingly, we disagree with this finding.

3. Determination and testing of major programs

Your letter of August 28, 2008 alleges incorrect determinations and inadequate testing. That is wrong as all requirements were met, and, accordingly, we disagree with your finding.

CWE had two major Federal programs and the compliance requirements of each were in fact met. Our sample sizes were adequate and representative of the population. During our meetings throughout the week of February 27, 2006, it was discussed with representatives from your office that each of the requirements in the Compliance Supplement had been met because they were included in the audit program steps. It appears from the Draft Report that the only thing lacking in this regard is the documentation of the decision making process to include all steps of the Compliance Supplement within the general steps of the audit program. However, this does not in any way demonstrate that all requirements were not met, which they were.

Your review asserts that internal control testing for both major Federal programs was inadequate. We differ.

Due to the delay in the timing of the start of the audit, and the size of the accounting staff responsible for compliance with controls relative to major Federal programs, during planning it was deemed more efficient to perform dual purpose testing in accordance with AICPA Professional Standards AU350.44.



The sample size selected for these tests were larger than otherwise would have been designed for two separate purposes, as explained above.

Since we were well within the guidelines in the performance of dual testing and did perform internal control testing, we disagree with your finding.

Further, your review asserts testing of Compliance Requirements for the two major programs was inadequate. Here again, we differ.

As discussed above, the sample sizes were adequate and representative of the population. Also as explained above, the sample sizes were greater than would otherwise have been required. As a result of our complying with all appropriate steps, we have accomplished adequate testing to reach a proper conclusion.

Simply put, we did in fact meet all of the requirements. Accordingly, the Draft Report is in error.

While your August 28, 2008 letter refers to workpapers for 2002 being unavailable, the review was for 2003 and 2004, and copies of 2002 workpapers were never requested by your representatives. Therefore, your comment concerning 2002 seems inapposite.

Similarly, the 2003 workpapers were not mentioned in your June 6, 2006 letter. Those workpapers were discussed with your representatives when they were in our office. They were specifically asked if it would be necessary to conduct the time-consuming, burdensome and expensive search of thousands of files in our offsite storage facility to locate them, and we were told it would not be necessary. We cannot understand why this is now an issue when it wasn't in June 2006.

#### 4. Reporting

Your review discusses our failure to mention a separate management letter in the CWE 2004 single audit report and asserts that your review team, having seen only an unsigned copy of such letter, could not determine if the management letter was issued. We cannot understand the logic that would increase their comfort level if there had been a signed copy in our files. When they raised the issue with us, we explained that this was a file copy and offered to provide a signed one. They declined and said it wouldn't be necessary.

Since it was determined through the testing (documented in the workpapers) that the theft mentioned in the management letter did not affect any Federal programs, no material violation occurred relative to Federal programs. Accordingly, discussion of the management letter concerning Federal programs would not have been appropriate to those circumstances. Moreover, it is disturbing that there is a disconnect between what the review team told us when they were on our premises

and what is included in your comment. In either event, we believe your finding is in error.

The representatives from your office left our premises on March 3, 2006 after five days. At that time, I met with Ms. Zaunder Saucer, Acting Director, National Audit and Evaluations Office, and was told there were no major issues. More than three months passed before I received her letter telling me otherwise. We responded immediately and are still willing to do whatever is necessary to help your office reach a satisfactory conclusion to your work.

You have recommended that CWE work with us to correct the deficiencies and we would be happy to comply with your request. However, the alleged deficiencies you delineate in your report lack specificity and, therefore, any collaborative effort would need your assistance to be accomplished.

Accordingly, we respectfully request that you identify the specific procedures the application of which would alleviate whatever shortcomings, if any, that are in fact determined to exist. We would appreciate it if you please have an appropriate representative from your office contact me at your earliest convenience to arrange a meeting to discuss these issues.

I look forward to hearing from you in the near future.

Sincerely,



Scott Gildea

Encl.



**SCOTT GILDEA & COMPANY, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

500 Fifth Avenue, New York, New York 10110  
Telephone: (212) 869-5700 Fax: (212) 869-9556

June 20, 2006

Ms. Zaunder Saucer  
Acting Director  
National Audit and Evaluations Office  
U.S. Department of Labor  
Office of Inspector General  
Washington, DC 20210

Dear Ms. Saucer:

We have received your Draft Report No. 21-06-530-50-598 dated June 6, 2006 concerning our audit of the Consortium of Worker Education (“CWE”). Our response to your findings is as follows:

1. Deficiency No. QCR 2004-1

Your review indicated we did not document in our workpapers the universes to determine that the sample selected supported a low level of control risk for the assertions relevant to the compliance requirements for each major program and to the testing of internal controls.

Our workpapers very clearly indicate the universe as 100% of the “draw-down worksheets” for the major Federal programs. All of the worksheets were reviewed and every transaction had an equal chance of selection, also indicated in the workpapers. A sample of 30 was drawn from each program. Since each program contained a large number of invoices that had charges to multiple programs, average sample sizes for each program approximated 100. In addition, since we had become aware of a theft by certain high-level employees of CWE, we expanded our selection process by applying judgment to certain vendors to determine no major Federal program had been affected.

Our testing did not reveal any event of non-compliance and, since our samples were clearly representative of the population, we disagree with your finding.

2. Deficiency No. QCR 2004-2

Your review indicated we demonstrated insufficient knowledge of the OMB Circular A-133 and the Compliance Supplement.

CWE had two major Federal programs and each of the compliance requirements were in fact met and our sample sizes were adequate and representative of the population. During our meeting, it was discussed with you that each of the requirements in the Compliance Supplement were also met because they were included in the audit program steps. It appears that the only thing lacking in this regard is the documentation of the decision making process to include all steps of the Compliance Supplement within the general steps of the audit program. However, all requirements were met.

Since all requirements were met, we disagree with your finding.

Separately, you commented on an interview you had with a member of our professional staff. His explanation of his response differs in that he was employing a poor attempt at levity during a stressful time. His response during your interview was taken out of context.

3. Deficiency No. QCR 2004-3

Your review indicated internal control testing for both major Federal programs was inadequate.

Due to the delay in the timing of the start of the audit and the small size of the accounting staff responsible for compliance with controls relative to major Federal programs, during planning it was deemed more efficient to perform dual purpose testing in accordance with AICPA Professional Standards AU350.44. The sample size selected for these tests were larger than otherwise would have been designed for two separate purposes, as explained in number 1, above.

Since we were well within the guidelines in the performance of dual testing and did perform internal control testing, we disagree with your finding.

4. Deficiency No. QCR 2004-4

Your review indicated testing of Compliance Requirements for the two major programs was inadequate.

As discussed in numbers 1, 2 and 3 above, the sample sizes were adequate and representative of the population. Also as explained above, the sample sizes were greater than would otherwise have been required, and as a result of complying with all steps, we have accomplished adequate testing to reach a proper conclusion.

Since we did meet all of the requirements, we disagree with your finding.

5. Deficiency No. QCR 2004-5

Your review indicated we deliberately excluded the CWE report from our most recent peer review.

Apparently there was a misunderstanding of our explanation. CWE was not a client at the time and was not required to be a part of our most recent peer review and was therefore excluded from such review. We are currently going through a peer review and CWE is part of it. If you desire, we will be happy to furnish you with a copy of that report when it is received.

Since CWE was not required to be part of our most recent review, we disagree with your finding.

6. Deficiency No. QCR 2004-6

Your review indicated our lack of mention in the CWE 2004 single audit report of a separate management letter.

Since it was determined through testing (documented in the workpapers) that the theft mentioned in the management letter did not affect any Federal programs, no material violation occurred relative to Federal programs. Therefore we disagree with your finding.

Based upon our planning and executing the procedures indicated within our workpapers, we believe the audit work performed is acceptable and has met the requirements of the Single Audit Act Amendments of 1996 and OMB Circular A-133.

Please feel free to contact us and arrange another visit to review the areas in question. We would welcome the opportunity to have a responsible individual to review such areas with one of your representatives to clear up any discrepancies.

We look forward to your response.

Sincerely,



Scott Gildea



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**AICPA Peer Review Program**

*Administrators in New York State*

May 3, 2007

Scott Gildea, CPA  
Scott Gildea & Company, LLP  
Suite 810  
500 Fifth Ave  
New York, NY 10110

Dear Mr. Gildea:

It is my pleasure to notify you that on March 20, 2007 the Peer Review Committee accepted the report on the most recent peer review of your firm, the related letter of comments, and your firm's response thereto. The due date for your next review is June 30, 2010. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the reviewer's opinion was unmodified. The Committee asked me to convey its congratulations to the firm.

Sincerely,



David Moynihan, CPA  
Chairman, Peer Review Committee

cc: Anthony J Mancuso, CPA

Firm Number: 10145567

Review Number: 235400

**ANTHONY J. MANCUSO** Certified Public Accountant  
3 Midland Gardens  
Bronxville, New York 10708  
Telephone - (914) 779-0325

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December 1, 2006

To Scott Gildea & Company, LLP

I have reviewed the system of quality control for the accounting and auditing practice of Scott Gildea & Company, LLP (the "firm") in effect for the year ended December 31, 2005. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements of Quality Control Standards issued by the American Institute of CPA's (AICPA). The firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with professional standards in all material respects. My responsibility is to express an opinion on the design of the system of quality control and the firm's compliance with its system of quality control based on my review.

My review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During my review I read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on my assessment, I selected engagements and administrative files to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a reasonable cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagements selected included among others, a Single Audit Act (A-133) engagement performed under Government Auditing Standards. Prior to concluding the review, I reassessed the adequacy of the scope of the peer review procedures and met with firm management to discuss the results of my review. I believe that the procedures I performed provide a reasonable basis for my opinion.

In performing my review, I obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, I tested compliance with the firm's quality control policies and procedures to the extent I considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. My review was based on selective tests therefore it would not necessarily detect all weaknesses in the system of quality control or all instances of lack of compliance with it. There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

**ANTHONY J. MANCUSO** Certified Public Accountant

Scott Gildea & Company, LLP  
December 1, 2006  
Page Two

In my opinion, the system of quality control for the accounting and auditing practice of Scott Gildea & Company, LLP in effect for the year ended December 31, 2005, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of complying with professional standards.

As is customary in a system review, I have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the opinion expressed in this report.



Anthony J. Mancuso, CPA