

U.S. Department of Labor

Office of Inspector General—Office of Audit

SINGLE AUDIT QUALITY CONTROL REVIEW



**QUALITY CONTROL REVIEW:
SINGLE AUDIT OF EXPERIENCE WORKS, INC.,
FINANCIAL STATEMENTS, SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS,
REPORTS REQUIRED BY GOVERNMENT
AUDITING STANDARDS AND OMB CIRCULAR
A-133 FOR YEAR ENDED JUNE 30, 2007**

Date Issued: February 6, 2009
Report Number: 24-09-004-03-360

U.S. Department of Labor

Office of Inspector General
Washington, DC 20210



February 6, 2009

Assistant Inspector General's Report

Ms. Cynthia A. Metzler
President and CEO
Experience Works, Inc.
4401 Wilson Boulevard
Suite 1100
Arlington, VA 22203

Dear Ms. Metzler:

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 BDO Seidman, LLP (the Firm), under the Federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133 (A-133):

Experience Works, Inc., Financial Statements, Schedule of Expenditures of Federal Awards, Reports Required by Government Auditing Standards and OMB Circular A-133 for Year Ended June 30, 2007

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 program:

Program	Catalog of Federal Domestic Assistance (CFDA) Number
Senior Community Service Employment Program (SCSEP)	17.235

We determined that the audit work performed was not acceptable and did not meet the requirements of the Single Audit Act and A-133. Additional work is required to bring this audit into compliance with the requirements of the Single Audit Act. Specifically, the Firm needs to: (1) correct the threshold recorded in the Federal Audit Clearinghouse and notify the users of the Schedule of Findings and Questioned Costs of the correct threshold amount; (2) document the threshold calculations; (3) reissue its report to

include a reference to the management letter, and correct and reissue the management letter; and (4) document the conclusions in the audit documentation as to why the deficiencies noted in the management letter were not significant deficiencies.

We also noted issues requiring management's attention to improve the quality of future audits. Specifically, the Firm needs to: (1) revise its procedures to require reporting of all alleged fraud; (2) verify the reported threshold during supervisory and final reviews of A-133 audits; (3) revise its final review procedures to require review of management letters and audit reports at the same time for A-133 audits; and (4) revise the Firm's policies and procedures to require consideration of the classification of internal control deficiencies during its final review of management letters for A-133 audits.

The Firm took action to address the noted deficiencies and to improve the quality of future audits. Details on the results of our review are provided in the Enclosure.

Sincerely,



Elliot P. Lewis
Assistant Inspector General
for Audit

Enclosure

cc: Ms. Laurie Rocha, Partner, BDO Seidman, LLP

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

Enclosure

**Quality Control Review:
Single Audit of the Experience Works, Inc.,
Financial Statements, Schedule of Expenditures of Federal Awards, Reports
Required by Government Auditing Standards and
OMB Circular A-133 for Year Ended June 30, 2007
(24-09-004-03-360)**

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 December 17, 2007, BDO Seidman, LLP, issued a single audit report of the Experience Works, Inc., Financial Statements, Schedule of Expenditures of Federal Awards, Reports Required by Government Auditing Standards and OMB Circular A-133 for Year Ended June 30, 2007.

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

Program	CFDA Number
SCSEP	17.235

Objectives

The objectives of the QCR were to determine whether: (1) the audit was conducted in accordance with applicable standards and met the single audit requirements; (2) any follow-up work is needed; and (3) there are any issues that may require management's attention.

We determined that the audit work performed was not acceptable and did not meet the requirements of the Single Audit Act and A-133. Additional work is required to bring this audit into compliance with the requirements of the Single Audit Act. Specifically, the Firm needs to: (1) correct the threshold recorded in the Federal Audit Clearinghouse and notify the users of the Schedule of Findings and Questioned Costs of the correct threshold amount; (2) document the threshold calculations; (3) reissue its report to include a reference to the management letter and correct, and reissue the management letter; and (4) document the conclusions in the audit documentation as to why the deficiencies noted in the management letter were not significant deficiencies.

We also noted issues requiring management’s attention to improve the quality of future audits. Specifically, the Firm needs to: (1) revise its procedures to require reporting of all alleged fraud; (2) verify the reported threshold during supervisory and final reviews of A-133 audits; (3) revise its final review procedures to require review of management letters and audit reports at the same time for A-133 audits; and (4) revise the Firm’s policies and procedures to require consideration of the classification of internal control deficiencies during its final review of management letters for A-133 audits.

Possible Fraud or Illegal Acts

1. The Firm did not verify that the auditee reported alleged fraud to the OIG as required.

The Firm did not ensure that alleged fraud was reported as required by A-133. Although the Firm said it notified the auditee an alleged fraud needed to be reported to the U.S. Department of Labor, it did not verify the alleged fraud was reported as required. The Firm’s audit documentation did not contain evidence the alleged fraud was reported to either the OIG or to the Employment and Training Administration (ETA). At our request, the Firm obtained a letter the grantee submitted to ETA. However, we and the Firm were unable to find any evidence that the report was submitted to the OIG.

A-133, Subpart E – Auditors, Section 510 -- Audit findings, paragraph (a) – Audit findings reported, subparagraph (6), provides that the auditor shall report as audit findings, in a schedule of findings and questioned costs, known fraud affecting a Federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for Federal awards. This paragraph does not require the auditor to make an additional reporting when the auditor confirms that the fraud was reported outside of the auditor’s reports under the direct reporting requirements of Generally Accepted Government Auditing Standards (GAGAS).

GAGAS, paragraph 5.24, states, in part:

... auditors should obtain sufficient, competent, and relevant evidence, such as confirmation from outside parties, to corroborate assertions by management that it has reported fraud ... If they are unable to do so, then the auditors should report such fraud...directly...

Title 20, Code of Federal Regulations, Section 667.630, requires that information and complaints involving criminal fraud ... must be reported immediately through the Department’s Incident Reporting System to the DOL-OIG ... with a copy simultaneously provided to ETA.

The Firm said the fraud was not reported because it was less than \$300 and the amount was immaterial. Failure to report alleged fraud to the appropriate parties results in an increased risk to Federal funds.

Determination of Major Programs

2. The Firm inaccurately calculated the Type A threshold.

The Firm did not accurately calculate the dollar threshold it used to identify Type A programs that it reported to the Federal Audit Clearinghouse or on the Schedule of Findings and Questioned Costs. The Firm reported \$3,044,701 as the threshold amount. Further, the computations for that amount were not included in the audit documentation. The amount should have been \$3,000,000.

A-133, Subpart E – Auditors, Section 520 -- Major Program Determination, provides for the identification of major programs using a risk-based approach which includes the identification of Type A programs.

A-133, Subpart C—Auditees, Section 320 -- Report submission, requires the threshold be used in determining the programs to select for audit and requires it 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.

The Firm said an incorrect methodology was used to calculate the threshold and this was not detected through supervisory reviews or through final reviews of A-133 audits. 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

3. The Firm did not refer to a management letter in its report.

The Firm did not disclose in its report that there were internal control deficiencies reported to management. Specifically, the Firm issued a management letter that was not referred to in the Firm's report on internal control.

GAGAS, paragraph 5.16, provides that if deficiencies are reported in a management letter, the auditor's report on internal control should refer to that letter.

The Firm said it did not notice the report did not make reference to the management letter because the report and management letter did not go through the final review process at the same time. The Firm's policies and procedures did not require review of the audit report and management letter at the same time for A-133 audits. As a result,

readers of the report were not made aware of the existence of the management letter and readers would conclude there were no internal control deficiencies.

4. The Firm did not document its conclusion on internal control deficiencies in the audit documentation.

The management letter included two internal control deficiencies that were identified as significant deficiencies, but the Firm did not document its conclusion in the audit documentation. Significant deficiencies were required to be reported in the Firm's report and not in a management letter. Further, the audit documentation did not explain why the internal control deficiencies were or were not significant.

GAGAS, paragraph 5.12, provides that, for financial audits, the auditors should report deficiencies in internal control considered to be reportable conditions. On June 26, 2007, OMB issued a notice which stated that to be consistent with recent revisions to auditing standards, the term "reportable condition" is replaced with the term "significant deficiency."

The American Institute of Certified Public Accountants (AICPA) issued Statement on Auditing Standards No. 112 -- Communicating Internal Control Related Matters Identified in an Audit (AICPA, Professional Standards, Vol. 1, Auditing 325), became effective for audits of periods ending on or after December 15, 2006. It states, in part:

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

GAGAS, paragraphs 4.22 through paragraph 4.24, provide that audit documentation for financial audits performed in accordance with GAGAS should contain sufficient information to enable an experienced auditor who has had no previous connection with the audit to ascertain from the audit documentation the evidence that supports the auditors' significant judgments and conclusions. AICPA standards and GAGAS require auditors to prepare and maintain audit documentation.

The Firm said the deficiencies were control deficiencies instead of significant deficiencies, and provided a well-reasoned explanation supporting that conclusion. The Firm said it had not thoroughly considered the classification of the deficiencies at the time of the audit. Furthermore, the Firm's policies and procedures did not provide for consideration of the classification of internal control deficiencies during its final review of management letters for A-133 audits.

The lack of documented conclusions as to why an internal control deficiency is or is not a significant deficiency raises questions regarding the appropriateness of the audit conclusions.

Recommendations

We recommend the Firm:

1. Revise its procedures to require reporting of all alleged fraud as required by A-133.
2. Correct the threshold recorded in the Federal Audit Clearinghouse and notify the users of the Schedule of Findings and Questioned Costs of the correct threshold amount.
3. Document threshold calculations and verify the reported threshold during supervisory and final reviews of A-133 audits.
4. Revise its final review procedures to require review of management letters and audit reports at the same time for A-133 audits.
5. Reissue its report to include a reference to the management letter, and correct and reissue the management letter.
6. Document the conclusions in the audit documentation as to why the deficiencies noted in the management letter were not significant deficiencies.
7. Revise the Firm's policies and procedures to require consideration of the classification of internal control deficiencies during its final review of management letters for A-133 audits.

Firm's Response

The Firm agreed with the recommendations, and took action to address the noted deficiencies and to improve the quality of future audits. The response is provided in full in Appendix D.

OIG's Conclusion

We consider the recommendations resolved and closed.

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Appendices

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Background

The Single Audit Act of 1984 established consistent and uniform entity-wide audit requirements for state and local governments receiving Federal financial assistance. The single audit is the primary mechanism used by Federal agencies to ensure accountability for Federal awards. Audits performed under the 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 Experience Works, Inc., Financial Statements, Schedule of Expenditures of Federal Awards, Reports Required by Government Auditing Standards and OMB Circular A-133 for Year Ended June 30, 2007, performed by BDO Seidman, LLP.

Experience Works, Inc., a non-profit corporation was incorporated in the District of Columbia. The organization's mission is to strengthen families, communities and our nation by providing disadvantaged and older individuals with opportunities to learn, work, and serve others. In support of this mission, the organization operates job training and placement projects, funded through federal grant awards made directly to the organization, passed through to the organization to other recipients, through state contract awards, and through foundation support. For the year ending June 30, 2007, Experience Works, Inc., expended about \$101.5 million in Federal funds, of which \$101.0 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. 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 the Experience Works, Inc., Financial Statements, Schedule of Expenditures of Federal Awards, Reports Required by Government Auditing Standards and OMB Circular A-133 for Year Ended June 30, 2007, at the offices of BDO Seidman, LLP, located at 7101 Wisconsin Avenue, Bethesda, Maryland, from August 6, 2008 to August 15, 2008.

Our review included the following major program:

Program	CFDA Number
SCSEP	17.235

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

We also reviewed the Firm’s peer review applicable to the period of the audit.

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
AICPA	American Institute of Certified Public Accountants
CFDA	Catalog of Federal Domestic Assistance
DOL	Department of Labor
ETA	Employment and Training Administration
Firm	BDO Seidman, LLP
GAGAS	Generally Accepted Government Auditing Standards
OIG	Office of Inspector General
OMB	Office of Management and Budget
QCR	Quality Control Review
SCSEP	Senior Community Service Employment Program

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Independent Public Accountant Response To Draft Report



BDO Seidman, LLP
Accountants and Consultants

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January 30, 2009

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

Dear Mr. Lewis:

Please find our responses to the Draft Report (Report Number 24-09-004-03-360) issued as a result of a Quality Control Review (QCR) the U.S. Department of Labor Office of Inspector General conducted of our audit of ExperienceWorks, Inc. for the year ended June 30, 2007.

You should also be aware that I have included evidence of the corrective action already taken to correct the deficiencies identified in your report.

Sincerely,

A handwritten signature in black ink, appearing to read 'Laurie Rocha'. The signature is fluid and cursive.

Laurie Rocha
Partner



BDO Seidman, LLP
Accountants and Consultants

1. The Firm did not verify that the auditee reported alleged fraud to the OIG as required.

Several discussions were held with the client regarding their obligation to report the alleged fraud to the Department of Labor. An email was included in the workpaper file documenting the Firm's discussion with management. A certified letter was sent by management to the program manager prior to the release of our report that the partner and senior manager on the engagement observed. We regret that a copy of this letter was not included in the file prior to archiving.

Paragraph .510 of OMB A-133 states the following: "The auditor shall report the following as audit findings in a schedule of findings and questioned costs: 6) Known fraud affecting a Federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for Federal awards. This paragraph does not require the auditor to make an additional reporting when the auditor confirms that the fraud was reported outside of the auditor's reports under the direct reporting requirements of GAGAS."

We did not include the less than \$300 fraud as a finding in the A-133 report because we determined that not only was the fraud "clearly inconsequential" as contained within section 5.12 of GAGAS (2003 Yellow Book), the client had complied with the direct reporting requirements of GAGAS by reporting the fraud to the DOL program manager. We observed evidence of the fact that they reported the fraud during the audit.

Corrective Action Taken

- 1.) In future we will report all known instances of fraud involving Federal funds regardless of dollar amount.

2. The Firm inaccurately calculated the Type A threshold.

We acknowledge that there was a mathematical error in the calculation of the Type A threshold that was not identified in our review process. However, we disagree that the calculation of that amount was not included in the audit workpapers as the calculation was clearly indicated on an audit workpaper that was provided to the OIG investigator. Further the error in the calculation had no impact on the programs selected as Type A threshold and no impact on the quality of the audit performed.

Corrective Action Taken

- 1.) We have resubmitted the data collection form to the Federal audit clearing house with the correct threshold reported and notified the users of the report of the change.



BDO Seidman, LLP
Accountants and Consultants

- 2.) We have revised our threshold calculation in our workpaper file and will ensure the mathematical accuracy is recalculated during supervisory and final reviews.

3. The Firm did not refer to the management letter in its report.

We acknowledge that we failed to refer to the management letter in our report because the audit report and management letter were reviewed at different times.

Corrective Action Taken

- 1.) We have revised our final review procedures to require review of all reports at the engagement partner and final "cold" read level at the same time.
- 2.) We have reissued the report with reference to the management letter and corrected and reissued the management letter.

4. The Firm did not document its conclusion on internal control deficiencies in the audit documentation.

Although a discussion was held amongst the engagement team as to the classification of the control deficiencies identified, documentation of this conversation and the conclusions drawn were not included in the workpaper file. Further, changes that were requested to be made to the draft management letter were not made prior to finalization and the wrong version of the management letter was incorrectly released.

Corrective Action Taken

- 1.) Contemporaneous documentation has been added to the file to support the conclusions drawn as to the classification of control deficiencies.
- 2.) Firm policy currently requires consideration of the classification of internal control deficiencies during the final review process. Although this was done during the audit, in future documentation of this will be included in the workpaper file.