

U.S. Department of Labor

Office of Inspector General  
Washington, D.C. 20210



AUG - 6 2008

Ms. Rhonda Simmons  
City of San Francisco  
Mayor's Office of Economic and Workforce Development  
City Hall Room 448  
1 Drive Carlton B. Goodlett Place  
San Francisco, CA 94102

Dear Ms. Simmons:

Enclosed is a final report (Report Number 24-08-006-03-390) containing the results of a Quality Control Review (QCR) the U.S. Department of Labor, Office of Inspector General (OIG), conducted of the following audit completed by Izabal, Bernaciak & Company under the Federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133:

Single Audit of the Private Industry Council of San Francisco, Inc.,  
Audited Financial Statements and OMB Circular A-133 Reports for the  
two year period year ended June 30, 2005

Our review did not identify any issues to be reported to management, and no follow-up work is required. If you have any questions concerning the results of the QCR, please contact Mark Lemke, Acting Director, Office of Audit Quality Assurance, at (202) 693-5252, or email at [lemke.mark@oig.dol.gov](mailto:lemke.mark@oig.dol.gov).

Sincerely,

A handwritten signature in black ink that reads "Elliot P. Lewis".

Elliot P. Lewis  
Assistant Inspector General  
for Audit

Enclosure

cc: Mr. Robert Izabal, Partner, Izabal, Bernaciak & Company

# U.S. Department of Labor

Office of Inspector General—Office of Audit

## **SINGLE AUDIT QUALITY CONTROL REVIEW**



### **QUALITY CONTROL REVIEW: SINGLE AUDIT OF THE PRIVATE INDUSTRY COUNCIL OF SAN FRANCISCO, INC., FINANCIAL STATEMENTS AND OMB CIRCULAR A-133 REPORTS FOR THE TWO YEAR PERIOD ENDED JUNE 30, 2005**

**Date Issued: August 6, 2008  
Report Number: 24-08-006-03-390**

U.S. Department of Labor

Office of Inspector General  
Washington, DC 20210



**Assistant Inspector General's Report**

August 6, 2008

Ms. Rhonda Simmons  
City of San Francisco  
Mayor's Office of Economic and Workforce Development  
City Hall Room 448  
1 Drive Carlton B. Goodlett Place  
San Francisco, CA 94102

Dear Ms. Simmons:

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

Single Audit of the Private Industry Council (PIC) of San Francisco, Inc., Audited Financial Statements and OMB Circular A-133 Reports for the two year period 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.

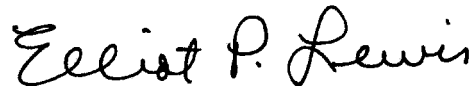
Our review included the following major programs:

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 several issues requiring management's attention to improve the quality of future audits. Specifically, the Firm did not: (1) ensure those responsible for planning, directing, conducting, and reporting on the audit met the Generally Accepted Government Auditing Standards (GAGAS) continuing professional education (CPE) requirements; (2) report that the A-133 Schedule of Expenditures of Federal Awards (SEFA) was not prepared in the required format; and (3) follow GAGAS on reporting all internal control deficiencies, as well as reporting all the elements of a finding (i.e., criteria, condition, cause, and effect). For more details on the results of our review, please see the enclosure.

If you have any questions concerning the results of the QCR, please contact Mark Lemke, Acting Director, Office of Audit Quality Assurance, at (202) 693-5252, or email at [lemke.mark@oig.dol.gov](mailto:lemke.mark@oig.dol.gov).

Sincerely,



Elliot P. Lewis  
Assistant Inspector General  
for Audit

Enclosure

cc: Robert Izabal, Partner, Izabal Bernaciak & Company  
Edward J. Donahue, Jr., Division of Policy, Review, and Resolution,  
Employment and Training Administration

**Enclosure**

**Quality Control Review:  
 Single Audit of the Private Industry Council of San Francisco, Inc.  
 Audited Financial Statements and OMB Circular A-133 Reports  
 for the two year period year ended June 30, 2005  
 (Report No. 24-08-006-03-390)**

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

On February 24, 2006, Izabal, Bernaciak & Company issued a single audit report on the financial statements of the Private Industry Council of San Francisco, Inc. as of June 30, 2005, and the related statements of activities, functional expenses and cash flows for the two year period then ended.

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 several issues requiring management’s attention to improve the quality of future audits. Specifically, the Firm did not: (1) ensure those

responsible for planning, directing, conducting, and reporting on the audit met GAGAS CPE requirements; (2) recognize that the A-133 SEFA was not prepared in the required format; and (3) follow GAGAS on reporting all internal control deficiencies, as well as reporting all the elements of a finding (i.e., criteria, condition, cause, and effect).

## **General Standards**

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### **1. Auditor Qualifications**

The Firm did not ensure those responsible for planning, directing, conducting, and reporting on the audit met GAGAS CPE requirements. The audit team comprised two partners, a manager, and two staff members. The partners and manager met their GAGAS CPE requirements. However, the two staff members did not obtain the required 80 hours of CPE every two years from 2004 through 2007. Further, one staff member did not obtain the required 24 hours of targeted training every two years from 2005 through 2007.

The Firm did not maintain documentation of the CPE completed by the two staff members. Alternatively, it relied upon the staff members to maintain their own documentation. Further, the Firm did not adequately monitor CPE compliance through its internal inspections or other quality assurance monitoring activities. As a result, the Firm allowed staff to perform governmental audits who had not met the GAGAS CPE requirements.

GAGAS 2003 Revision, paragraph 3.45, states, in part:

. . . each auditor performing work under generally accepted government auditing standards should complete, every 2 years, at least 80 hours of CPE . . . At least 24 of the 80 hours of CPE should be in subjects directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. . . .

In April 2005, the U.S. Government Accountability Office (GAO) issued *Guidance on GAGAS Requirements for Continuing Professional Education* to assist auditors and audit organizations in exercising professional judgment to comply with the CPE requirements prescribed by the 2003 revision of *Generally Accepted Government Auditing Standards*.

Paragraphs 33 to 39 of GAO's CPE Guidance require that individual auditors, in conjunction with the audit organization, are responsible for monitoring their own progress towards meeting the CPE requirements and maintaining evidence of their attendance at or completion of CPE programs. The audit organization's policies and procedures for CPE should address documenting the number of CPE hours completed by each auditor; and monitoring auditor compliance with the CPE requirements to ensure that auditors complete sufficient CPE in qualifying programs and topics. Further, the audit organization is responsible for maintaining documentation of the CPE hours

completed by each auditor subject to the CPE requirements. Also, the audit organization should monitor CPE compliance through its internal inspections, or other quality assurance monitoring activities.

Further, paragraph 14 states that audit organizations should not allow auditors who have not satisfied the CPE requirements to participate in GAGAS audits or attestation engagements until those requirements are satisfied.

## **Single Audit Requirements**

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### **2. Schedule of Expenditures of Federal Awards (SEFA)**

The auditors did not assess the appropriateness and completeness of the auditee's identification of Federal programs included in the SEFA. Specifically, the Firm did not report the SEFA was not prepared in the format required by A-133.

Although the auditee accounted for its expenditures of Federal awards, it did not prepare the SEFA in the format required by A-133. Specifically, the SEFA did not:

- List individual Federal programs by Federal agency
- Provide total Federal awards expended for each individual Federal program and CFDA number

The Firm stated it was aware of the reporting requirement and attributed its acceptance of the incomplete SEFA to an oversight. We did not observe that the Firm's auditing procedures had steps to ensure that auditees were complying with the reporting requirements.

A-133, Subpart C—Auditee Responsibilities, Section 310(b), Financial statements, Schedule of expenditures of Federal awards, states, in part:

- . . . At a minimum, the schedule shall: (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs . . .
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

## Reporting

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

The Firm identified internal control reportable conditions but did not report them in accordance with GAGAS. One finding did not contain all the details relevant to the reported condition. Additionally, a second finding did not contain all the elements (i.e., criteria, cause, and effect) required by GAGAS.

a. Details relevant to a reportable condition were not reported.

In Finding 05-01, the Firm reported that the PIC had submitted an outstanding incident report filed to the California Employment Development Department involving a conflict of interest by one of its employees and subcontractors. The auditors noted that the incident report was filed in accordance with regulations. However, when this incident occurred, PIC's policy on conflict of interest was limited to its management, and the policy did not address its employees working directly with participants and subcontractors.

However, the Firm did not disclose the following details that were relevant to understanding the finding nor did it explain the effect of the condition. Based on our review of the audit documentation, we determined the PIC incident report submitted to DOL contained partial details regarding the conflict of interest involving a husband and wife. The Firm obtained additional evidence not included in the incident report that the wife, a PIC Employment and Training Specialist, allegedly directed the WIA Dislocated Worker client flow to her husband's employer. The wife had the authority to initiate contracts to PIC's various subcontractors, and her husband's employer received more of the WIA Dislocated Worker funds than any other agency. Further, the Firm did not report that, from 2000 to 2005, the husband received commissions from his employer for trainee referrals in addition to his base salary of \$305,699. However, the audit documentation did not include a calculation of the value of the commissions attributed specifically to his wife's referrals.

The Firm believed it prudently reported what was relevant to DOL because at the same time it issued the audit report, the incident was being investigated by the state Employment Development Department. However, this was not adequate because all the details were not disclosed that were relevant to understanding the finding.

b. Elements of the finding were not reported.

In Finding 05-02, the Firm reported the audited entity was late submitting reports to the Federal Clearinghouse, but did not report the cause of the condition or governing criteria. The Firm attributed its exclusion of the reporting elements to an oversight. Lack of all the reporting elements mitigates the importance of the



finding and does not assist the audited entity management and oversight officials to understand the need for taking corrective action.

GAGAS, paragraph 5.14, states, in part:

Auditors should place their findings in proper perspective by providing a description of the work performed that resulted in the finding. To give the reader a basis for judging the prevalence and consequences of these findings, the instances identified should be related to the population or the number of cases examined and be quantified in terms of dollar value, if appropriate.

GAGAS, paragraph 5.15, states, in part:

To the extent possible, in presenting audit findings such as deficiencies in internal control, auditors should develop the elements of criteria, condition, cause, and effect to assist management or oversight officials of the audited entity in understanding the need for taking corrective action. In addition, if auditors are able to sufficiently develop the findings, they should provide recommendations for corrective action.

We did not observe that the Firm's auditing procedures had steps to ensure that all relevant details regarding reportable conditions and all elements of findings were included in its reports.

## **Recommendations**

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We recommend the Firm:

1. Maintain documentation of CPE completed by staff subject to CPE requirements.
2. Monitor CPE compliance through its internal inspections, or other quality assurance monitoring activities.
3. Ensure staff members obtain required CPE before performing governmental audits.
4. Inform auditees of A-133 reporting requirements in future engagements.
5. Include in its auditing procedures steps to ensure auditees prepare the SEFA in the format required by A-133.
6. Revise its audit procedures to ensure all relevant details regarding reportable conditions and all elements of findings are included in its reports.

### **Firm's Response**

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In response to the recommendations, the Firm said that it agreed with the results of the QCR and has developed procedures to ensure that: staff members meet CPE requirements; the SEFA format meets OMB requirements; and reported findings meet GAGAS requirements. The Firm provided documentation to support the corrective actions it has taken. Regarding the QCR finding that the Firm did not report details relevant to a reportable condition, the Firm stated that it believed it included all of the relevant details of reportable finding 05-01 under the circumstances at the time of the audit to wit. The basis of the finding was under investigation and, therefore, it was the Firm's professional judgment to only include reference to the incident report that was filed.

### **OIG's Conclusion**

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Based on the Firm's response, we consider the recommendations resolved and closed.

# Appendices

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**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. 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 A-133 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 Private Industry Council of San Francisco, Inc., for the two year period year ended June 30, 2005, completed by Izabal, Bernaciak & Company.

The PIC was a California Corporation organized pursuant to the General Non-Profit Corporation Law in September 1979. For the two-year period ending June 30, 2005, the PIC expended \$37.2 million in Federal awards, of which \$31.5 million was attributable to DOL.

On December 15, 2006, the Board of Directors of the PIC adopted a resolution announcing its intention to cease operations as of June 30, 2007, and thereafter to dissolve this corporation. On June 30, 2007, the PIC ceased operations and laid off all employees.

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**Appendix B**

**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. 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 PIC for the two year period ending June 30, 2005 at the offices of Izabal, Bernaciak & Company, located at One Market Street, Spear Tower, Suite 344, San Francisco, California, from March 24, 2008 to April 3, 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
- SEFA
- Audit Follow-up
- Reporting
- Internal Control Over Major Programs
- Data Collection Form

**Criteria**

We used the following criteria to perform this QCR:

- Government Auditing Standards 2003 Version
- Guidance on GAGAS Requirements for Continuing Professional Education
- Single Audit Act of 1984
- Single Audit Act Amendments of 1996
- OMB Circular A-133



**Appendix C**

**Acronyms and Abbreviations**

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A-133	Office of Management and Budget Circular A-133
CFDA	Catalog of Federal Domestic Assistance
CPE	Continuing Professional Education
DOL	Department of Labor
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
OIG	Office of Inspector General
OMB	Office of Management and Budget
PIC	Private Industry Council
QCR	Quality Control Review
SEFA	Schedule of Expenditures of Federal Awards
WIA	Workforce Investment Act

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Independent Public Accountant Response to Draft Report

**IZABAL, BERNACIAK & COMPANY**  
CERTIFIED PUBLIC ACCOUNTANTS

One Market, Spear Street Tower, Suite 344  
San Francisco, California 94105

Tel (415) 898-5551  
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July 11, 2008

Eliot P. Lewis  
Assistant Inspector General  
For Audit  
U.S. Department of Labor  
Office of the Inspector General  
Washington, D.C. 20210

Dear Mr. Lewis

The following is our response to Draft Report (Report Number 24-08-006-03-390). Quality Control Review: Single Audit of the Private Industry Council of San Francisco, Inc., Financial Statements and OMB Circular A-133 Reports for the Two Year Period Ended June 30, 2005.

**1. General Standards**

**Auditor Qualifications**

We agree with the results of the Quality Control Review.

We have developed procedures to ensure staff members obtain required CPE before performing governmental audits. We have also developed procedures to maintain documentation of CPE completed by staff subject to CPE requirements and procedures to monitor CPE compliance through internal and external quality control monitoring reviews.

**2. Single Audit Requirements**

**Schedule of Expenditures of Federal Awards (SEFA)**

We agree with the results of the Quality Control Review.

We have developed audit procedures to ensure that the SEFA prepared by Auditees meets the format required by OMB Circular – A-133.

**3. Reporting**

Firm did not follow GAGAS for reporting deficiencies in internal control.

**A. Details relevant to a reportable condition were not reported**

We believe that we reported all of the relevant details of the reportable finding 05-01 under circumstances at the time of the audit to wit - the basis of the finding was under investigation and therefore it was our professional judgment to only include reference to the incident report that was filed. It was our understanding that any parties that needed to follow up on the issue would have access to the incident report that contained additional information. Also, the investigation was ongoing and we did not believe it was appropriate for us to

include in our report investigative data that was part of the incident report because it could possibly compromise further or future investigative or legal proceedings.

**B. Elements of the finding were not reported**

We agree that one finding included in our report did not contain all the elements (i.e., criteria, condition, cause and effect) required by GAGAS. We have developed procedures to ensure that all elements of a finding required by GAGAS are included in our reports.

Thank you for the opportunity to respond to the Quality Control Review.

Sincerely,

  
Robert Izabal  
Partner