



MAR 31 2004

Mr. Conroy Chino
Secretary
New Mexico Department of Labor
401 Broadway NE
Albuquerque, New Mexico 87102

Re: Report No. 22-04-539-50-598

Dear Mr. Chino:

This is the final report resulting from the quality control review (QCR) of the single audit report of the State of New Mexico Department of Labor (NMDOL) for the fiscal year (FY) ended June 30, 2001. A consortium of auditors, consisting of the New Mexico State Auditors, Hinkle & Landers, PC, and Chester Mattocks, CPA (the Auditors) prepared the single audit report. The objectives of the quality control review are to (1) ensure that the audit was conducted in accordance with applicable standards and meets the single audit requirements, (2) identify any follow-up audit work needed, and (3) identify issues that may require management attention. The review was conducted using the Uniform Quality Control Review Guide for A-133 Audits issued by the President's Council on Integrity & Efficiency (PCIE), 1999 Edition.

The major programs included in our review were:

| <u>CFDA</u> <u>Number</u> | <u>Program Name</u> |
|------------------------------|---|
| 17.207, 801, 804 | Employment Service Grant Cluster (Employment Service, Disabled Veteran's Outreach Program, Local Veteran's Employment Representative Program) |
| 17.255 | Workforce Investment Act (WIA) |
| 17.225 | Unemployment Insurance Administration |
| 17.250 | Job Training Partnership Act (JTPA) |
| 17.253 | Welfare-to-Work (WtW) |

Based on our review of the programs above, we believe the audit work performed on the NMDOL is acceptable and meets the requirements of the Single Audit Act Amendments of 1996 and OMB Circular A-133.

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We identified an issue during our review. This issue did not affect our overall conclusion; however, it should be taken into consideration for future audits.

ISSUE:

The Entity Risk Assessment Working Paper was Inconsistent with the Audit Report.

The Schedule of Findings and Questioned Costs in the audit report indicated that the auditee did not qualify as low-risk auditee. The auditor's working paper GCX-7, Part III (Determining If the Auditee is a Low-risk Auditee), question no. 2 (Does the auditee qualify as a low risk auditee?) was checked "Yes." The two statements were inconsistent.

Working paper GCX-7, Part III, question no.1 stated, *an entity is considered a low-risk auditee if it meets ALL of the following criteria for each of the previous years [Sec. 530].* The auditors responded "Yes" to this section, indicating that the auditee qualified as a low-risk auditee. However, later in the same worksheet, the auditors calculated the basis for the 50% coverage rule, which is used for a high-risk auditee. The 25% coverage rule is used for a low-risk auditee. We asked the auditors about this discrepancy and it was documented that the working paper was in error.

Based on our review of the fiscal year 2000 audit report, we found that a) the report on internal controls identified deficiencies in the internal controls that were material weaknesses, and b) the federal programs had internal control deficiencies that were material weaknesses and non-compliance issues. As a result of these two conditions the auditee would not qualify as low-risk auditee.

The applicable criteria from the OMB Circular A-133 is as follows:

§___.530 Criteria for a low-risk auditee.

An auditee which meets all of the following conditions for each of the preceding two years (or, in the case of biennial audits, preceding two audit periods) shall qualify as a low-risk auditee and be eligible for reduced audit coverage in accordance with §___.520:

(b) The auditor's opinions on the financial statements and the schedule of expenditures of Federal awards were unqualified. However, the cognizant or oversight agency for audit may judge that an opinion qualification does not affect the management of Federal awards and provide a waiver. (c) There were no deficiencies in internal control, which were identified as material weaknesses under the requirements of GAGAS. However, the cognizant or oversight agency for audit may judge that any identified material weaknesses do not affect the management of Federal awards and provide a waiver. d) None of the Federal

programs had audit findings from any of the following in either of the preceding two years (or, in the case of biennial audits, preceding two audit periods) in which they were classified as Type A programs:

- (1) Internal control deficiencies, which were identified as material weaknesses;
- (2) Noncompliance with the provisions of laws, regulations, contracts, or grant agreements which have a material effect on the Type A program; or
- (3) Known or likely questioned costs that exceed five percent of the total Federal awards expended for a Type A program during the year.

In conclusion, the auditors' working papers were inaccurate. However, the audit report was correctly stated that the auditee was not qualified as a low-risk auditee and the audit coverage was adequate. The auditors agreed with the OIG finding that the working papers were in error.

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The Auditors had no comments on our Draft Report issued on February 24, 2004. Therefore, we are issuing this report to you unchanged from the Draft Report.

We appreciate the opportunity to review the work performed on the State of New Mexico Department of Labor and the courtesies extended to us by you and your staff. If you have any questions concerning the results of the review, please contact me at (202) 693-5164.

Sincerely,



Michael T. McFadden
Director
Office of Accountability Audit

cc: Mr. Domingo Martinez, State Auditor
Mr. Nick Landers, CPA
Mr. Chester W. Mattocks, CPA