U.S. Department of Labor

Office of Inspector General—Office of Audit

SINGLE AUDIT
QUALITY CONTROL REVIEW

RECOVERY ACT: QUALITY CONTROL REVIEW SINGLE AUDIT OF HUMAN RESOURCES AND OCCUPATIONAL DEVELOPMENT COUNCIL OF PUERTO RICO FOR YEAR ENDED JUNE 30, 2009

Date Issued: September 29, 2010
Report Number: 18-10-008-03-390

U.S. Department of Labor

Office of Inspector General
Washington, DC 20210

September 29, 2010

Assistant Inspector General's Report

Mr. Jose E. Diaz-Martinez
President
CPA Diaz-Martinez, PSC
P.O. Box 8369
Caguas, PR 00726-8369

Dear Mr. Diaz:

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 Certified Public Accountant (CPA) Diaz-Martinez, P.S.C. (the Firm), under the Federal Single Audit Act (the Act) and Office of Management and Budget (OMB) Circular A-133 (A-133):

> Single Audit of the Human Resources and Occupational Development Council (Council) For the Year Ended June 30, 2009

Our review included the following major programs:

Table 1: DOL Major Programs Reviewed

Major Program	Catalog of Federal Domestic Assistance (CFDA) Number	DOL Funds Reported as Expended
Workforce Investment Act (WIA) Cluster	17.258 17.259 17.260	$134,394,693
American Recovery and Reinvestment Act (ARRA) – WIA Cluster	17.258 17.259 17.260	$7,180,552
Total DOL WIA Funds Reported As Expended		$141,575,245

Since our review included ARRA funds, we are required by ARRA to post this report on our website www.oig.dol.gov and link to the Recovery Accountability and Transparency Board's website www.recovery.gov.

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.

The audit work performed by the Firm over compliance with requirements applicable to each major program and internal control over compliance in accordance with A-133 was acceptable. However, the audit work performed over financial reporting, including the Statement of Expenditure of Federal Awards (SEFA), was not acceptable and did not meet the requirements of the Act, A-133, Government Auditing Standards (GAS), and Generally Accepted Auditing Standards (GAAS). Additionally, the Firm did not ensure all significant information in the notes to the basic financial statements (financial statement notes) and the Management Discussion and Analysis (MD&A) was completely, accurately, and consistently presented.

Additional work is required to bring this audit into compliance with the requirements of the Act. Specifically, the Firm needs to follow the GAAS notification requirements for subsequent discovery of facts existing at the date of the auditor's report and any additional requirements provided in GAS. The Firm should determine the need to report internal control findings related to the Council's procedures for determining the proper application of Generally Accepted Accounting Principles (GAAP) and procedures for the proper determination of amounts to be presented in the SEFA. These findings should also be reported in the Schedule of Findings and Questioned Costs.

A-133, Section .400(a)(5), requires us to advise the auditor and, where appropriate, the auditee of any deficiencies found in the audits when the deficiencies require corrective action by the auditor. When advised of deficiencies, the auditee shall work with the auditor to take corrective action. If corrective action is not taken, we are responsible for notifying the auditor, the auditee, and applicable Federal awarding agencies and pass-through entities of the facts and make recommendations for follow-up action. Major inadequacies shall be referred to appropriate State licensing agencies and professional bodies for disciplinary action. Details of our review are provided in the Enclosure.

Sincerely,

Elliot P. Lewis

Elliot P. Lewis
Assistant Inspector General
for Audit

Enclosure

Enclosure

Quality Control Review:
Single Audit of the Human Resources and Occupational Development Council, Financial Statements, Schedule of Expenditures of Federal Awards, Reports Required by Government Auditing Standards and OMB Circular A-133 for the Year Ended June 30, 2009
(18-10-008-03-390)

Introduction

The Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996, created a single organization-wide financial and compliance audit for state and local governments, colleges, universities, and not-for-profit organizations that expend Federal funds equal to or greater than $300,000 in any fiscal year ($500,000 for fiscal years ending after December 31, 2003).

On December 22, 2009, the Firm issued a single audit report of the Council's Financial Statements and Reports Required by GAS and A-133 for the Year Ended June 30, 2009.

Our review included the following major programs:

Table 1: DOL Major Programs Reviewed

Major Program	CFDA	DOL Funds Reported as Expended
WIA Cluster	17.258 17.259 17.260	$134,394,693
ARRA – WIA Cluster	17.258 17.259 17.260	$7,180,552
Total DOL WIA Funds Reported As Expended		$141,575,245

Since our review included ARRA funds, we are required by ARRA to post this report on our website www.oig.dol.gov and link to the Recovery Accountability and Transparency Board's website www.recovery.gov.

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. To address these objectives, we answered the following question:

Did the Firm's single audit comply with applicable standards and single audit requirements so that no follow-up work or management's attention would be needed?

Results

The audit work performed by the Firm over compliance with requirements applicable to each major program and internal control over compliance in accordance with A-133 was acceptable. However, the audit work performed over financial reporting, including the SEFA, was not acceptable and did not meet the requirements of the Act, A-133, GAS, and GAAS. Additionally, the Firm did not ensure all significant information in the financial statement notes and the MD&A was completely, accurately, and consistently presented.

Additional work is required to bring this audit into compliance with the requirements of the Act. Specifically, the Firm needs to follow the GAAS notification requirements for subsequent discovery of facts existing at the date of the auditor's report and any additional requirements provided in GAS. The Firm should determine the need to report internal control findings related to the Council's procedures for determining the proper application of GAAP and the proper determination of amounts to be presented in the SEFA. These findings should also be reported in the Schedule of Findings and Questioned Costs.

A-133 §.400(a)(5), requires us to advise the auditor and, where appropriate, the auditee of any deficiencies found in the audits when the deficiencies require corrective action by the auditor. When advised of deficiencies, the auditee shall work with the auditor to take corrective action. If corrective action is not taken, we are responsible for notifying the auditor, the auditee, and applicable Federal awarding agencies and pass-through entities of the facts and make recommendations for follow-up action. Major inadequacies shall be referred to appropriate State licensing agencies and professional bodies for disciplinary action.

Did the Firm's single audit comply with applicable standards and single audit requirements so that no follow-up work or management's attention would be needed?

The Firm's noncompliance with some auditing standards and single audit requirements left users of the Council's financial statements at risk.

The work performed by the Firm on compliance requirements required by the Act and A-133 was acceptable; however, the Firm's work on financial reporting did not comply with all applicable standards and single audit requirements. This noncompliance did not result in a need for grantor agency involvement.

1. The Firm did not identify a material misapplication of GAAP that required a modification of its opinion on the Council's financial statements and required the Firm to report a material weakness in internal control over financial reporting and compliance.

The Firm did not demonstrate an adequate understanding of GAAP as it applied to the recognition of revenue, expenditure and related accounts for governmental funds. Furthermore, the Firm did not demonstrate an understanding of the Council's lack of internal controls over assessing and implementing those principles. Because of its lack of understanding, the Firm was not aware it needed to modify its opinion on the Council's financial statements and issue a material weakness finding on the Council's internal control over financial reporting and compliance.

Because of its misapplication of GAAP, the Council misstated accounts receivable, revenue, amounts payable to subrecipients, and subrecipient expenditures by about \$193 million, \$90 million, \$126 million, and \$67 million, respectively in its financial statements for the year ended June 30, 2009. The Firm did not properly modify its opinion on the financial statements based on those misstatements and did not include the misstatement as an audit finding in the Report on Internal Control and Compliance and the Schedule of Findings and Questioned Costs.

Using information provided by the Firm, we calculated the approximate amount of misstated ARRA funding as follows:

Table 2: Over-Reported ARRA Funding

Account	Amount (million)
Accounts receivable	$85
Revenue	$85
Amounts payable to subrecipients	$66
Subrecipient expenditures	$66

The Firm explained that, based on a 2007 communication with GASB, it believed the Council's policy for recognizing WIA grant funds was correct and; therefore, its unqualified opinion on the financial statements was correct. Firm officials said, in response to a letter they sent to the Governmental Accounting Standards Board (GASB), a GASB technical representative told them the Council's interpretation was correct. In addition, the Firm said it asked a DOL grant officer to explain at what point WIA grant funds were available to the Council. The grant officer said the funds were available at the time the grant was issued and funds were transferred to an account in the Council's name in the U.S. Department of Health and Human Service's Payment Management System (PMS). In our analysis of the 2007 letter the Firm sent GASB, we found it stated the Council had met all requirements for revenue recognition found in

Governmental Accounting Standards Board Statement (GASBS) 33, and the funds were available to the Council.

A key decision point for recognizing revenue as well as expenditures using the modified accrual basis of accounting is the funds' availability. Because the Firm told GASB the funds were available it would have been reasonable for the GASB representative to agree with the Firm's interpretation regarding the Council's policy for recognizing WIA grant funds. However, in a teleconference with our office and Firm representatives, a GASB technical representative explained that, in accordance with GASBS 33, if the WIA funds were not collected during the current period or collected soon after year end to pay current liabilities, then the funds would not be considered available; and therefore, should not be recognized as revenue.

GASBS 33, Paragraph 30, states:

> When the modified accrual basis of accounting is used, revenues resulting from nonexchange transactions should be recognized …[for] government-mandated nonexchange and voluntary nonexchange transactions in the period when all applicable eligibility requirements have been met and the resources are available.

In addition, the recognition standard presented in the preface of GASBS 33 refers to available resources as those resources that are collected in the current period or expected to be collected soon enough after the end of the period so they can be used to pay current liabilities.

WIA grant funds awarded to the Council during the period July 1, 2008, through June 30, 2009, are available for 3 years, except for ARRA grants which are available for 2 years. The grant agreements include a provision that the funds must be expended in accordance with all applicable federal statutes, regulations, and policies. One important statute that should affect the way the Council recognizes revenue is the Cash Management Improvement Act (CMIA). CMIA requires the Council to draw down funds from the PMS only when those funds will be used to provide program activities soon after being drawn down.

Another reason the Council materially misstated its financial statements and the Firm did not identify the material misstatements was that the Council and the Firm had incorrectly interpreted the GASBS 33 eligibility requirement for reimbursements. Their interpretation was that GASBS 33 requires the grant recipient to disburse funds before being reimbursed for incurred costs. However, based on information provided by a GASB technical representative, GASBS 33 should be interpreted as the grant recipient being required to incur costs before drawing down funds.

Criteria related to (1) the requirements of the Cash Management Improvement Act, (2) ETA's policies on cash management for grant recipients, and (3) auditor's reporting responsibilities found in Statements on Auditing Standards (SAS) can be found in the Exhibit of this report.

The Council included a statement in its notes that it followed a policy of recording revenue when funds were available (i.e. expected to be collected soon after year end to pay current liabilities) and that most expenditures were recorded when the related governmental fund liability was incurred. Therefore, readers of the auditor's report could conclude that the $212 million reported as a receivable from DOL would mean the Council had that amount in current liabilities that it expected to pay soon after year end. The reader could also conclude that the $140 million reported as amounts payable to subrecipients would indicate subrecipients had incurred that amount in current liabilities that they expected to pay soon after year end.

The Council improperly reported all grant awards — including the ARRA grants — that would be available for drawdown over the next 12 to 36 months in accounts receivable and revenue at year end. Therefore, the reader of the auditor's report could conclude that the $88 million in ARRA funds awarded during the year was needed to pay ARRA-related current liabilities at June 30, 2009. However, according to the SEFA, only about $7 million in ARRA funds was reported as expended from March 2009 — the time the ARRA grant was issued and placed in PMS — through June 30, 2009. Of that amount, the Firm provided information that shows the Council had paid out approximately $4.6 million and had accounts payable of about $2.4 million at June 30, 2009. This misreporting of the use of ARRA funds is significant given the focus on transparency and the need to use the funds to help stimulate economic recovery.

The 2007 letter the Firm sent to GASB stated the Council had instructed 15 subrecipients who received WIA funds to adopt the Council's interpretation for reporting WIA activity in their financial statements. Based on information provided by the Firm and our review of one of the subrecipient's financial statements, we determined the subrecipients receiving WIA funds also used the same recognition methodology as the Council. Using this methodology would result in the misstatement of revenue, expenditures and related accounts for WIA funds in the 15 subrecipients' financial statements.

By not identifying and reporting a material misstatement in the Council's financial statements, the Firm did not ensure users of the financial statements could reach appropriate conclusions. For example, auditors for the Commonwealth of Puerto Rico's (Puerto Rico) financial statements for the year ended June 30, 2008, stated that the Council's financial information had been included in the Puerto Rico financial statements. They further stated they had not audited the information but rather relied on the opinion of the Council's auditors.

AU §561 of the Codification of SAS and GAS 5.26 through 5.31 provides procedures auditors should follow when they become aware of new information that could have affected their opinion on previously-issued financial statements. These procedures include notifying the auditee of the conditions that might require a restatement of previously-issued statements, reporting on restated financial statements, and notifying users of the previously-issued statements.

2. The Firm did not identify a material misapplication of A-133 requirements for reporting payments to subrecipients in the SEFA that would have required it to modify its opinion and report a material weakness finding.

The Firm incorrectly reported that the information in the SEFA was fairly stated. Based on information provided by the Firm, we found the Council incorrectly included a material amount of accounts payable to subrecipients in its reported expenditures.

This occurred because the Firm did not properly apply guidance contained in the AICPA Guide - *Government Auditing Standards and Circular A-133 Audits* (Audit Guide) in determining when amounts that passed through to subrecipients were considered expended and reportable in the SEFA. The Firm did not understand this requirement; and therefore, was not aware of the need to discuss the matter with the Council or modify its opinion on the SEFA. As a result of the Firm not identifying this reporting error, it did not issue a finding of a material weakness in internal control over financial reporting and compliance, and did not include a finding in the Schedule of Findings and Questioned Costs. Because this was not done, users of the auditor's report could reach incorrect conclusions on the amount of WIA funds actually expended during the year.

The Firm said the reason it believed the SEFA was fairly stated was because it had contacted the AICPA's Government Quality Center Technical Assistance Hotline for an interpretation of the Audit Guide and was told the SEFA should include accounts payable to subrecipients. The Firm did not document this communication with the AICPA.

The Audit Guide states that amounts passed through to subrecipients are considered expended when a disbursement is made to the subrecipient. Therefore, the Firm should have notified the Council to adjust the SEFA by removing the accounts payable amounts that had been improperly included as expenditures.

AU §551.09 of the Codification of SAS provides the auditor's responsibility for reporting on information accompanying the basic financial statements:

> If the auditor concludes, on the basis of facts known to him, that any accompanying information is materially misstated in relation to the basic financial statements taken as a whole, he should discuss the matter with the client and purpose appropriate revision of the accompanying information. If the client will not agree to revision of the accompanying information, the auditor should either modify his report on the accompanying information and describe the misstatement or refuse to include the information in the document.

The Council's presentation of the SEFA was overstated by approximately $4.5 million, including about $1 million in ARRA funding, out of total reported expenditures of $143 million. Based on information included in the Firm's audit documentation, an overstatement of this amount is a material misstatement.

The Firm's lack of understanding of requirements for amounts presented in the SEFA resulted in its incorrect assurance that the SEFA could be relied on. Council management and others who use the Council's financial statements to make important decisions would have been unaware of the reported information's lack of quality. As noted in finding 1, this could affect the opinion expressed by Puerto Rico's auditor on Puerto Rico's SEFA.

3. The Firm did not perform necessary procedures to ensure all significant information presented in the MD&A was consistent with the information reported in the basic financial statements and significant footnote disclosures were accurate, clear, and complete.

We found the Firm's quality control review process was not effective in evaluating the Council's assertion that information presented in the MD&A was accurate and consistent with the financial statements. In addition, the Firm did not identify unclear and contradictory information that was included in the financial statement notes, and conversely, required GAAP disclosures that were omitted from the notes.

MD&A information was not consistent with the financial statements and contained inaccurate information.

Our review of the Council's MD&A and financial statements found inconsistent and inaccurate information that the Firm did not identify and report. Examples are as follows:

- The MD&A had the following statement, "At the end of the fiscal year, unreserved fund balance for the WIA Fund was $65,926,890." However, the WIA Fund in the Council's Governmental Fund Balance Sheet at June 30, 2009 showed that amount as reserved funds.
- The Council presented information in the MD&A that the Statement of Net Assets included unrestricted net assets of $64,692,000. The Statement of Net Assets reported that amount was restricted.

- The MD&A reported, "Expenditures also increased due to the recognition of the total award of the ARRA-WIA funding to local areas in accordance with USDOL funds availability." In our discussions with the Firm, we found that not all ARRA funds were allocated to local areas.

Financial statement notes were contradictory, unclear and in some cases inaccurate.

The Council's financial statement notes included contradictory information in the summary of significant accounting policies — governmental funds financial statements (GFFS). The information presented did not agree with the Council's actual practices. For example:

- Note 2.B –GFFS
  - Paragraph 1 stated, "The GFFS are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period." This correctly quotes the revenue recognition policy found in GASBS 33; however, the Council did not follow that policy when reporting WIA grant funds. The Council recorded revenue for grants as soon as the grant was issued and the funds had been placed in the PMS in the Council's name.

  - Paragraph 2 stated the Council reported that it would recognize receivables and revenue when applicable eligibility requirements were met. Although this is a standard in GASBS 33, it applies to entities who report revenue using the accrual basis of accounting. The Council is required to use the modified accrual basis of accounting. The modified accrual basis of accounting requires the Council to recognize revenue as stated above in paragraph 1 of note 2.B.

  - Paragraph 3 reported that the Council used a third method for recognizing revenue for grant funds. It states, "For the majority of grants, moneys must be expended by the Council on the specific purpose or project before any amounts will be reimbursed. Revenue, is therefore, recognized as expenditures are incurred to the extent available." Because WIA makes up a majority of the Council's grant expenditures for the year ended June 30, 2009, this paragraph would apply to those funds.

  - Note 4 stated, "As of June 30, 2009, the Council had an accounts receivable from the Federal awarding agencies for allowable program expenditures incurred. The balance due to the Council by the Federal agencies consists of Accounts Receivable from the US Department of Labor of $212,208,417."

According to information provided by the Firm, the receivable from DOL was based on the Council meeting all eligibility requirements and not on whether the Council had incurred liabilities that would be paid soon after year end. Therefore, this statement was not accurate.

Financial statement notes were not complete.

GASB Statement 38 requires recipients issuing GFFS to disclose the length of time used to define “available for purposes of revenue recognition — the Council did not disclose that information. The Firm did not identify the omission and, as a result, it was not reported as an internal control finding.

The Firm explained it did not believe the information in the MD&A and notes was inconsistent or inaccurate. The Firm said it was in compliance with the quality control documents that were adopted from a commercial vendor’s practice aids, including checklists necessary for compliance with professional standards. It said the checklists did not require a detailed evaluation of the MD&A wording. The Firm also said that when major funds are presented with separate columns in the GFFS, the use of Unreserved is permitted in substitution of Reserved because separate columns implies the reservation of funds. The Firm also stated Exhibit C-1 and C-2 of GASBS 34 included support for its position.

The Firm did not provide an explanation for why the notes included contradictory information and omitted required disclosures.

AU §558.07 of the Codification of SAS states that if supplementary information (such as the MD&A) is required, one of the procedures the auditor should apply is:

> b. Compare the information for consistency with (1) management’s responses to the auditor’s inquiries about the methods of preparing the information, (2) the audited financial statements, and (3) other knowledge obtained during the examination of the financial statements.

Section 1800.145 of the Codification of Governmental Accounting and Financial Reporting Standards (Codification), regarding presentation of reserved and unreserved fund balance reporting, states:

> Reserves should be reported in the “Fund Balance” section of governmental fund balance sheets, not as liabilities or between liabilities and fund balance. The “Fund Balance” section may be subdivided between or among its reserved and unreserved components, or separate “Reserved Fund Balance” and “Unreserved Fund Balance” section may be used.

Exhibits C-1 and C-2 of GASB Statement 34 found in Section 2200.915 of the Codification clearly distinguish between reserved and unreserved fund balances.

Section 2300.102 of the Codification regarding “Notes to Financial Statements”, states:

> The notes to the financial statements should communicate information essential for fair presentation of the basic financial statements that is not displayed on the face of the financial statements. As such, the notes form an integral part of the basic financial statements. Notes should focus on the primary government – specifically its government activities, business-type activities, major funds, and nonmajor funds in the aggregate. . . .

Section 2300.106 of the Codification, states:

> Notes to the financial statements essential to fair presentation in the basic financial statements include: a. Summary of significant accounting policies, including . . . (5) The revenue recognition policies used in fund financial statements, including the length of time used to define available for purposes of revenue recognition in the governmental fund financial statements. . . .

By not identifying inconsistent and inaccurate information in the Council’s MD&A, as well as contradictory and inaccurate information and omitted disclosures in the notes to the financial statements, the Firm did not provide the Council information it needed to make necessary corrections to its financial statements and required supplementary information (MD&A). In addition, by not identifying and reporting the MD&A and financial statement notes weaknesses, the Firm did not provide other users of the financial statements the information they might need to accurately assess the Council’s financial statements.

Conclusion

The Firm had a responsibility to provide assurance to those who relied on its opinion and the information reported in the financial statements that the financial statements were accurate and fairly presented. The audit work the Firm performed on the Council’s financial statements and SEFA was not acceptable and did not meet the requirements of the Act, A-133, GAS, and GAAS. As a result, the Firm left users of the Council’s financial statements and accompanying information at risk of relying on materially inaccurate information for decision-making purposes.

Recommendations

We recommend the Firm:

1. Follow AU §561 of the Codification of SAS and GAS 5.26 through 5.31 related to subsequent discovery of facts existing at the date of the auditor’s report to

ensure users of the Council's financial statements are aware of the reporting errors. This would include issuing the appropriate opinion on the financial statements and accompanying information based on whether or not the entity amends the statements and information, and reporting the appropriate findings noted in this report.

2. Ensure proper reporting in accordance with the SAS on the inaccurate and inconsistent information presented in the MD&A.

3. Provide additional training in relevant GAAP, auditing standards, and overall report quality control processes to Firm supervisory and management personnel responsible for audits related to entities required to report under the Single Audit Act.

4. Submit a revised reporting package to the Federal Audit Clearinghouse.

Firm's Response

The Firm agreed to comply with the pertinent sections of AU §561 and GAS and notify the Council to make the appropriate disclosures. The Firm will also perform research of AICPA guidance related to the recommendations. Upon the Council restating the financial statements and other related matters the Firm will proceed to perform the additional auditing procedures required by professional standards and issue its reports.

The Firm also said it complies with the Continuing Professional Education (CPE) required by the standards and key staff recently attended an AICPA Accounting and Auditing Update Conference that included Single Audit. The Firm will also look for new CPE offered by the Governmental Audit Quality Center and the Puerto Rico Society of Certified Public Accountants. See Appendix D for the Firm's complete response to our draft report.

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Exhibit

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Exhibit

Additional Accounting and Auditing Criteria for Finding 1

CMIA, Section 6503, “Intergovernmental Financing”, requires states to minimize the time elapsing between transfer of funds from the United States Treasury and the issuance or redemption of checks, warrants, or payments by other means for program purposes.

In Chapter II-2, “Financial Management Systems”, of its “O n e – S t o p Comprehensive Financial Management Technical Assistance Guide” (TAG) issued by the U.S. Department of Labor Employment and Training Administration Office of Grants and Contract Management Division of Financial and Grants in July 2002**,** financial management system standards included in 29 CFR 97.20(b) are provided. One of the standards is cash management. This standard explains that procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees must be followed whenever advance payment procedures are used. When advances are made by Payment Management System (PMS)/electronic transfer of funds (ETF) methods, the grantee must forecast cash needs to ensure that cash is received as close as possible to the time of actual disbursement. Grantees must also monitor the cash received by their subgrantees to minimize cash on hand. In addition, they must ensure that the subgrantees’ cash management procedures conform substantially to the same standards of timing and amount that apply to the awarding entity. In Chapter II-6, *Cash Management* there is a further discussion of the cash management requirements.

Chapter II-6-3 of the TAG states that ETA requires that subrecipients obtain funds from their awarding agency as needed for disbursement. Transfers of cash from an awarding agency to a subrecipient should conform to the same standards of timing and amount as set forth for transfers from Federal agencies to recipients, as is required by both 29 CFR 97.21 and 95.22. To receive cash advances, subrecipients must demonstrate that they will maintain procedures that support Federal cash management requirements. These procedures are necessary to effectively minimize cash on hand at the subrecipient level and to allow for the expeditious transfer of cash. Subrecipients are encouraged to use zero balance accounting, estimated clearance, or average clearance cash management techniques.

In Attachment II-6-1 of the TAG funding techniques that can be used by grantees and subgrantees are presented. One such technique is Zero Balance Accounting**.** Under this technique a recipient requests funds, and the agency deposits funds in a State account on the same day that program funds are paid out by the State. Under this arrangement, the account balance is always zero. This technique applies to subrecipients also. A subrecipient requests funds equal to the amount paid out, and the State agency deposits the same amount in the subrecipient account on the same day program payments are made. Footnote 7 of the Council’s financial statements states that the Council uses the zero balance accounting funding technique.

AU §508.35 of the Codification of SAS issued by the AICPA, states:

> When financial statements are materially affected by a departure from generally accepted accounting principles and the auditor had audited the statements in accordance with generally accepted auditing standards, he or she should express a qualified or an adverse opinion. The basis for such opinion should be stated in the report.

AU §325A.18 of the Codification of SAS issued by the AICPA, states:

> Deficiencies in controls over the selection and application of accounting principles that are in conformity with generally accepted accounting principles are at least a significant deficiency in internal control.

Appendices

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Appendix A

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 Human Resources and Occupational Development Council, Financial Statements, SEFA, Reports Required by GAS and A-133 for Year Ended June 30, 2009.

The Human Resources and Occupational Development Council (formerly Technological Occupational Education Council) was created by Law Number 97 on December 18, 1991. The Council has the responsibility of the administration, support, and inspection of the financial accountability, monitoring evaluation, and program operation of all subrecipients benefiting from Workforce Investment Act funds. The Council is a component unit of the Department of Labor and Human Resources of the Commonwealth of Puerto Rico. However, the Council's financial statements present the financial position of governmental activities, each major fund, and the aggregate remaining fund information and the effect revenues and expenditures has on the net assets of the Council and not activities of the Commonwealth of Puerto Rico.

For the year ending June 30, 2009, the Council reported expenditures totaling about $143 million in Federal funds which was attributable to DOL. A majority of those expenditures (about $142 million) were Workforce Investment Act expenditures. During the audit period the Council was awarded $92 million in ARRA funds that were to be spent expeditiously and effectively, with full transparency and accountability in the expenditure of funds. The grant agreement stated the funds were intended to supplement, not supplant existing WIA Title I State formula funds.

The Council provides pass-through WIA grant funds to 15 state authorized subrecipients. In addition, the Council provides contract funding to other entities to carry out the WIA program. The Council maintains a portion of the WIA grant funds to administer the program, including monitoring of subrecipients' use of those funds.

ARRA requires agencies to implement an unprecedented level of transparency and accountability to ensure the public can see where and how their tax dollars are being spent. The Recovery Accountability and Transparency Board, was established by ARRA, Congress, and the Office of Management and Budget to oversee and monitor implementation of ARRA through periodic reporting on the use and expenditure of funds. We are required by ARRA, Title XV Accountability and Transparency, Subtitle A – Transparency and Oversight Requirements, Section 1514 Inspector General Reviews, to post this report on our website www.oig.dol.gov and link to the Recovery Accountability and Transparency Board's website www.recovery.gov.

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.

To address these objectives we answered the following question:

Did the Firm's single audit comply with applicable standards and single audit requirements so that no follow-up work or management's attention would be needed?

Scope

We performed a QCR of the single audit of the Human Resources and Occupational Development Council, Financial Statements, SEFA, Reports Required by GAS and A-133 for the Year Ended June 30, 2009, at the offices of the Firm located at 201 Gautier Benitez Ave., Consolidated Mall C-31, Caguas, Puerto Rico.

Our review included the following major programs:

Table 1: DOL Major Programs Reviewed

Major Program	CFDA	DOL Funds Reported as Expended
WIA Cluster	17.258 17.259 17.260	$134,394,693
ARRA – WIA Cluster	17.258 17.259 17.260	$7,180,552
Total DOL WIA Funds Reported As Expended		$141,575,245

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 president and audit manager to accomplish the required steps. The Guide was developed to test for compliance with GAS general and fieldwork standards and A-133 requirements. Specifically, we reviewed:

- Financial Statements and Related Notes
- SEFA

- Independent Auditors' Reports
- MD&A
- 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

AICPA Audit Guide Government Auditing Standards and A-133 Audits

AICPA Codification of Statements of Auditing Standards

American Recovery and Reinvestment Act

Code of Federal Regulations

Government Auditing Standards

Governmental Accounting Standard Board's Codification of Governmental Accounting and Financial Reporting Standards

Guidance on Generally Accepted Government Auditing Standards Requirements for Continuing Professional Education

OMB Circular A-133

Single Audit Act of 1984

Single Audit Act Amendments of 1996

Workforce Investment Act Program Annual Funding Agreements

Appendix C

Acronyms and Abbreviations

A-133	Office of Management and Budget Circular A-133
AICPA	American Institute of Certified Public Accountants
Audit Guide	AICPA Guide - *Government Auditing Standards and Circular A-133 Audits*
CFDA	Catalog of Federal Domestic Assistance
CMIA	Cash Management Improvement Act
Codification	Codification of Governmental Accounting and Financial Reporting Standards
Council	Human Resources and Occupational Development Council
DOL	Department of Labor
ETA	Employment and Training Administration
Firm	CPA Diaz-Martinez, PSC
GAS	Government Auditing Standards
GAAS	Generally Accepted Auditing Standards
GASB	Governmental Accounting Standards Board
GASBS	Governmental Accounting Standards Board Statement
GFFS	Governmental Funds Financial Statements
MD&A	Management Discussion and Analysis
OIG	Office of Inspector General
OMB	Office of Management and Budget
PMS	Payment Management System
QCR	Quality Control Review
SAS	Statements on Auditing Standards
SEFA	Schedule of Expenditures of Federal Awards

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Appendix D

Independent Accountant Response to Draft Report

CPA DIAZ-MARTINEZ, PSC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

ENHANCING THE QUALITY OF ACCOUNTING AUDITING AND ATTESTATION SERVICES

201 Gautier Benítez Ave.
Consolidated Mall C-31
PO Box 8369
Caguas, PR 00726-8369
Phones: (787) 746-0510 / 746-1185 / 746-1370
Fax: (787) 746-0525
cpadiazmartinez@hotmail.com

CERTIFIED MAIL NO.: 7008 3230 0001 7601 2938

September 22, 2010

Mr. Elliot P. Lewis
Assistance Inspector General for Audit
U.S. Department of Labor
Office of the Inspector General
Washington, D. C. 20210

Ref: Single Audit QCR
Puerto Rico HROCD
Report Number: 18-10-008-03-390

Dear Mr. Lewis:

Following are our answers to the facts mentioned in the above referenced document of the Quality Control Review of the Human Resources and Occupational Development Council (Council) for the Single Audit at June 30, 2009.

Based on the recommendations made by the U.S. Department of Labor – Office of Inspector General, we are presenting the following actions to be taken:

Recommendation 1, 2 and 4:

As per AU Section 561 of the Codification of Statements of Auditing Standards, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*, and Chapter 8, §5.26 through 5.31 of the *Government Auditing Standards*, we are proceeding to notify the Council to make appropriate disclosure of the discovery of facts and their impact on the Financial Statements for the Fiscal Year Ended June 30, 2009 to persons who are known to be currently relying or who are likely to rely on the Financial Statements and the related auditor's report. We are also making our research with personnel from the AICPA as how to proceed according with the provisions of AU §561 of the Codification of SAS and GAS 5.26 through 5.31 related to this matter.

Upon the Council restating the Financial Statements and other related matters, we would proceed to perform the additional auditing procedures required by professional standards and issue our reports.

Recommendation 3:

The personnel of our Firm comply with the Continuing Professional Education (CPE) required by the standards. Further, the President and Manager of our Firm assisted this year to the AICPA National Governmental Accounting and Auditing Update Conference (GAAC) East, and obtained 17 CPE credits in accounting and auditing (including Single Audit). We also, are placing attention of new CPE offered by the AICPA Governmental Audit Quality Center and the Puerto Rico Society of Certified Public Accountants related to these areas.

CPA℠

Member of: American Institute of Certified Public Accountants (AICPA)
Puerto Rico Society of Certified Public Accountants

Enrolled in the AICPA Peer Review Program Since 1988

Mr. Elliot P. Lewis
September 22, 2010
Ref: Single Audit QCR
Puerto Rico HROCD
Report Number: 18-10-008-03-390

Thank for your recommendations.

Cordially yours,

CPA DIAZ-MARTINEZ, PSC

José E. Díaz-Martínez, CPA
President

c Mr. Aurelio González Cubero
Executive Director
Human Resources and Occupational Development Council