

U.S. Department of Labor

Office of Inspector General—Office of Audit

SINGLE AUDIT QUALITY CONTROL REVIEW



QUALITY CONTROL REVIEW SINGLE AUDIT OF STATE OF NEW MEXICO WORKFORCE SOLUTIONS DEPARTMENT FOR THE YEAR ENDED JUNE 30, 2021

Date Issued:
Report Number:

March 7, 2023
24-23-001-50-598



March 7, 2023

INSPECTOR GENERAL'S REPORT

Joann Chavez
Deputy Director, ASD, and CFO
State of New Mexico Workforce Solutions Department
401 Broadway Boulevard NE
Albuquerque, NM 87102

Dear Ms. Chavez:

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 on the single audit of State of New Mexico Workforce Solutions Department, which was completed by Moss Adams LLP (Firm) under the Office of Management and Budget (OMB) 2 CFR 200 (Uniform Guidance) for the year ended June 30, 2021.

Our objective was to determine if the audit was conducted in accordance with applicable standards, including Generally Accepted Government Auditing Standards (GAGAS) and Generally Accepted Auditing Standards (GAAS), and met the requirements of OMB Uniform Guidance.

We determined that the report and audit work performed generally met the requirements of GAGAS, GAAS, and OMB Uniform Guidance. However, the Firm's testing could be improved. Specifically, audit documentation provided by the Firm in the electronic working paper file did not contain sufficient information on the attributes tested for the Activities Allowed or Unallowed compliance requirement. We also noted that the Firm did not conduct internal control and compliance testing of the Workforce Innovation and Opportunity Act (WIOA) cluster subrecipients' financial and performance reporting as required by OMB Uniform Guidance and 2 CFR 200, Appendix XI, OMB Compliance Supplement, July 2021.

OMB Uniform Guidance §200.513 Responsibilities (a)(3)(v), requires us to:

Advise the auditor, Federal awarding agencies, 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 must work with the auditor to take corrective action. If corrective action is not taken, the cognizant agency for audit must notify the auditor, the auditee, and applicable Federal awarding agencies and pass-through entities of the facts and make recommendations for follow-up action.

Details on the results of our review are provided in the Enclosure. We appreciate the cooperation and courtesies the Firm extended to us during this review.

Sincerely,



Carolyn R. Hantz
Assistant Inspector General
for Audit

Enclosure

cc: Latonya Torrence
Director
Division of Policy, Review, and Resolution
Employment and Training Administration

Gregory Hitchcock
Audit Liaison
Office of Grants Management
Office of Management and Administration Service
Employment and Training Administration

Kory Hoggan
Partner
Moss Adams LLP

Enclosure

**Quality Control Review
Single Audit of State of New Mexico
Workforce Solutions Department
for the Year Ended June 30, 2021
(24-23-001-50-598)**

The DOL OIG conducted a QCR of the single audit of State of New Mexico Workforce Solutions Department for the year ended June 30, 2021. The single audit was completed by Moss Adams LLP (Firm). Table 1 details the scope of the OIG’s QCR, including the DOL major program we reviewed.

Table 1: Quality Control Review Scope

DOL Major Programs Reviewed	Catalog of Federal Domestic Assistance Numbers	DOL Major Funds Reported as Expended
COVID-19 Unemployment Insurance	17.225	\$1,922,681,309
Unemployment Insurance	17.225	\$683,322,310
WIOA Cluster	17.258, 17.259, 17.278	\$29,781,669
Total DOL Major Funds Reported as Expended		\$2,635,785,288

Source: State of New Mexico Workforce Solutions Department Schedule of Expenditures of Federal Awards (SEFA) for the Year Ended June 30, 2021

A QCR is performed to provide evidence of the reliability of the single audit to the auditors of federal agency financial statements, such as those required by the Chief Financial Officers Act and others. For the year ended June 30, 2021, State of New Mexico Workforce Solutions Department reported federal expenditures of \$2,794,991,708, which consisted of DOL funds totaling \$2,647,198,807 and non-DOL funds totaling \$147,792,901. The single audit conducted by the Firm covered the DOL major programs COVID-19 Unemployment Insurance, Unemployment Insurance, and WIOA cluster, totaling \$2,635,785,288. The remaining \$11,413,519 were used for non-major DOL programs that were not tested as part of the single audit.

The single audit is an organization-wide audit or examination of a non-federal entity that expends \$750,000 or more of federal assistance received for its operations. Usually performed annually, a single audit has two main objectives:

1. Audit of the entity’s financial statements and reporting on a separate Schedule of Expenditures of Federal Awards (SEFA) in relation to those financial statements.
2. Compliance audit of federal awards expended during the year as a basis for issuing additional reports on compliance related to major programs and on internal control over compliance.

RESULTS

We determined that the report and audit work performed generally met the requirements of GAGAS, GAAS, and OMB Uniform Guidance. However, the Firm’s testing could be improved. Specifically, audit documentation provided by the Firm in the electronic working paper file did not contain sufficient information on the attributes tested for the Activities Allowed or Unallowed compliance requirement. We also noted that the Firm did not conduct internal control and compliance testing of the WIOA cluster subrecipients’ financial and performance reporting as required by OMB Uniform Guidance and 2 CFR 200, Appendix XI, OMB Compliance Supplement, July 2021 (2021 OMB Compliance Supplement).

THE FIRM NEEDS TO IDENTIFY ATTRIBUTES TESTED IN THE AUDIT DOCUMENTATION

The audit documentation provided by the Firm in the electronic working paper file did not contain sufficient information on the attributes tested for the Activities Allowed or Unallowed compliance requirement. The Firm used the 2021 OMB Compliance Supplement, which contains the attributes to be tested as it relates to the Activities Allowed or Unallowed compliance requirement for each major program, to test the Unemployment Insurance and WIOA major programs. However, Moss Adams LLP did not provide direct 2021 OMB Compliance Supplement references to identify the attributes tested for each major program.

According to the Clarified Statement of Auditing Standards, AU-C 230.08 Audit Documentation, the auditor should prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: a. the nature, timing, and extent of the audit procedures performed to comply with GAAS and applicable legal and regulatory requirements; b. the results of the audit procedures performed and the audit evidence obtained; and c. significant findings or issues arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

The Firm did not follow guidance on preparation of audit documentation, which prevents users from effectively understanding the attributes tested. By not providing the required information, users of the audit documentation do not have sufficient information to judge how the Firm accomplished its testing of Unemployment Insurance and WIOA cluster funds. When the audit documentation is not presented completely, it does not allow the transparency necessary for users to efficiently and effectively understand the testing performed. Upon our request, the Firm was able to provide us with the attributes tested via e-mail. However, the audit documentation should have provided a better linkage to the attributes tested in the 2021 OMB Compliance Supplement. On their own, e-mail and oral explanations by the auditor do not represent adequate support for the work the auditor performed or conclusions the auditor reached, but may be used to explain or clarify information contained in the audit documentation.

**LACK OF TESTING OVER WIOA CLUSTER
SUBRECIPIENT REPORTING**

The Firm did not conduct internal control and compliance testing of the WIOA cluster financial and performance subrecipients' reporting. The Firm's compliance testing of the subrecipients' reporting consisted of the review of the quarterly consolidated State of New Mexico Workforce Solution Department's Financial Status Reports (Employment and Training Administration Forms 9130 and 9170) comprising the four subrecipients' combined financial and performance data, submitted quarterly to DOL for the audit period July 1, 2020, through June 30, 2021.

For the two of the four WIOA cluster subrecipients sampled for review, the Firm's analysis supporting their testing work as documented in the electronic working paper file (SA-285-3, columns 8b & c) indicated that they "obtained the subrecipient audit and evaluated results" and "concluded that it agrees to the testing procedures with no exceptions." However, there was no documentation supporting their work performed, as required by the 2021 OMB Compliance Supplement, for internal control and compliance testing supporting subrecipient financial and performance reporting conducted. The Firm claimed that internal control and compliance testing for the WIOA cluster subrecipients was performed, but they did not provide us with any direct references to the subrecipient testing that was performed.

The 2021 OMB Compliance Supplement, Appendix XI, Suggested Audit Procedures - Compliance (3-L-5 and 3-L-6), L. Reporting states that at a minimum, the Firm should have selected a sample of the subrecipients and

performed internal control and compliance testing of the amounts reported for each of the financial and performance subrecipient reports.

For the financial reports, the Firm should:

Perform appropriate analytical procedures and ascertain the reason for any unexpected differences. Examples of analytical procedures include:

- a. Comparing current period reports to prior period reports.
- b. Comparing anticipated results to the data included in the reports.
- c. Comparing information obtained during the audit of the financial statements to the reports.

For the following report types, test for accuracy and completeness:

- Determine whether the financial reports were complete, accurate, and prepared in accordance with the required accounting basis.
- Trace the amounts reported to the accounting records that support the audited financial statements and SEFA; confirm agreement or perform alternative procedures to verify the accuracy and completeness of the reports and that they agree with the accounting records; and determine whether the reported information was supported by available documentation.

For the performance reports, the Firm should:

- Trace the reported data to records that accumulate and summarize data.
- Perform tests of the underlying data to verify the data were accumulated and summarized in accordance with the required or stated criteria and methodology, including the accuracy and completeness of the reports.
- Test the selected reports for accuracy and completeness.

For both report types, the Firm should:

- Trace reported data elements to supporting worksheets or other documentation that link reports to the data when intervening computations or calculations were required between the records and the reports.
- Test mathematical accuracy of reports and supporting worksheets.

The Firm should have verified the State of New Mexico Workforce Solutions Department (a pass-through entity) adequately monitored subrecipients as required by OMB Uniform Guidance §200.331(d) by performing the following:

- Reviewing financial and programmatic reports required by the pass-through entities.
- Obtaining the subrecipients' single audits and reviewing them to ensure that the subawards they provided were included in the SEFA and determining if there were any findings for the programs.
- Following up and ensuring that the subrecipients took timely and appropriate actions on all findings for the subawards that were detected through audits, on-site reviews, and any other means.
- Reviewing management decisions issued for audit findings reported in the subrecipients' single audits to verify they were within six months of receipt of the audit reports.

The Firm did not comply with the financial or performance subrecipient reporting requirements as outlined by OMB Uniform Guidance and the 2021 OMB Compliance Supplement. Upon our request, the Firm indicated via an e-mail that their work was contained in electronic working file SA-285-3; however, upon review, there was no documentation supporting their work. The Firm's audit documentation needed to support that the Firm tested whether the State of New Mexico Workforce Solutions Department (a pass-through entity) adequately reviewed the financial and performance subrecipients' reporting.

OIG RECOMMENDATIONS

We recommend the Firm:

1. Send a memorandum to those performing single audits emphasizing Clarified Statement of Auditing Standards audit documentation requirements to ensure the attributes tested are identified for the Activities Allowed or Unallowed compliance requirement.
2. Conduct internal control and compliance testing of the WIOA cluster financial and performance subrecipients' reporting and provide direct references to the where the testing was performed.

FIRM'S RESPONSE

The Firm stated it used the 2021 OMB Compliance Supplement to identify and define the attributes tested for the Activities Allowed or Unallowed compliance requirement and this was documented in the relevant sections of the workpapers. The Firm also stated the significant internal controls over compliance were tested, as required, and determined those controls were operating effectively. Furthermore, the reporting compliance requirement was tested, primarily through the suggested audit procedures in the 2021 OMB Compliance Supplement and the firm did not retain this client documentation in their files, and no reportable issues were identified. The Firm believed the audit procedures performed were sufficient to achieve the stated audit objectives. The Firm's response to the report is contained in Appendix B.

OIG'S CONCLUSION

We disagree with the Firm's response that the attributes tested were identified in working papers. The working papers contained spreadsheets with columns labeled Activity Allowed Compliance and Allowed Costs Principles Compliance but did not contain the specific attributes tested. Subsequent to bringing this matter to the Firm, they provided us with the attributes tested; however, this information was not contained in the audit documentation. Contrary to the Firm's assertion, there were no direct 2021 OMB Compliance Supplement references to identify the attributes tested for each major program.

We also disagree with the Firm's response regarding the lack of testing over subrecipient reporting because the Firm did not conduct key financial and performance subrecipient reporting testing requirements for fiscal year 2021. We found no evidence of the Firm having verified the financial data costs such as reviewing the fiscal year 2020 and 2019 subrecipient single audit reports and reconciling these costs to the financial records. In addition, there was no further evidence supporting the Firm verified the subrecipients' performance.

Appendices

APPENDIX A: OBJECTIVE, SCOPE, METHODOLOGY, & CRITERIA

OBJECTIVE

Our objective was to determine if the audit was conducted in accordance with applicable standards, including GAGAS and GAAS, and met the requirements of OMB Uniform Guidance.

SCOPE

We performed a QCR of Moss Adams LLP’s single audit of State of New Mexico Workforce Solutions Department’s financial statements, SEFA, reports required by GAGAS, and OMB Uniform Guidance for the year ended June 30, 2021. Our QCR of Moss Adams LLP covered \$2,635,785,288 in federal expenditures for two DOL major programs, Unemployment Insurance and WIOA cluster. We performed our work remotely due to COVID-19.

METHODOLOGY

We reviewed the single audit report using the Council of Inspectors General on Integrity and Efficiency (CIGIE) Guide for Desk Reviews of Single Audit Reports and reviewed the supporting audit documentation using the CIGIE Guide for Quality Control Reviews of Single Audits. These guides were developed to ensure compliance with the requirements of OMB Uniform Guidance (including the Compliance Supplement), GAGAS, and the AICPA Audit Guide on “Government Auditing Standards and Single Audits.” We reviewed the financial statements, compliance, and internal control reporting; SEFA; and Schedule of Findings and Questioned Costs.

We also held discussions with the Firm to accomplish the required steps. The CIGIE guides were developed to test for compliance with GAGAS and GAAS, and meeting the requirements of OMB Uniform Guidance.

Specifically, we reviewed:

- Auditor Qualifications
- Independence
- Professional Judgment/Due Professional Care
- Quality Control
- Fieldwork
- Schedule of Federal Awards
- Determination of Major Federal Programs

- Schedule of Findings and Questioned Costs
- Summary of Prior Audit Findings
- Financial Statement Risk Assessment
- Financial Statement Identification and Evaluation of Audit Findings
- Communication of Financial Statement Audit Findings
- Compliance with AICPA Standards
- Considerations Related to Audit of Major Federal Program
- Sampling - Major Federal Program (Internal Control and Compliance)
- Testing of Internal Control Over Compliance
- Testing for Compliance with Direct and Material Compliance Requirements

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

CRITERIA

- OMB Uniform Guidance, 2 CFR 200
- 2021 OMB Compliance Supplement
- AICPA Audit Guide on Government Auditing Standards and Single Audits
- Clarified Statements on Auditing Standards (AU-C)
- GAGAS, 2018 Revision

APPENDIX B: FIRM'S RESPONSE



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Albuquerque, NM 87110

February 10, 2023

Ms. Carolyn R. Hantz
Assistant Inspector General for Audit
U.S. Department of Labor
Office of the Inspector General
Washington, DC 20210

SENT ELECTRONICALLY TO gilkinson.sean@oig.dol.gov

Dear Ms. Hantz,

Moss Adams LLP provides this response to the U.S. Department of Labor, Office of Inspector General (OIG) draft report "Quality Control Review Single Audit of State of New Mexico Workforce Solutions Department for the year ended June 30, 2021" (Report Number 24-23-001-50-598) furnished to us February 3, 2023.

Observation #1: The Firm Needs to Identify Attributes Tested in the Audit Documentation

Firm Response

As stated in OIG's observation, Moss Adams used the 2021 OMB Compliance Supplement to identify and define attributes to test as it relates to the Activities Allowed or Unallowed compliance requirement for each major program. The relevant sections of the 2021 OMB Compliance Supplement are maintained in our electronic working paper file in each major program testing section and serve as a companion to our audit programs in determining and documenting the relevant requirements (attributes for testing) and audit work performed for each major program.

For each major program, Step 5 of our audit program for testing the Activities Allowed or Unallowed compliance requirement requires the auditor to "identify the types of activities which are either specifically allowed or prohibited by Federal statutes, regulations, and the terms and conditions of the Federal award pertaining to the program". Our response to this step for each major program states that we reviewed the 2021 OMB Compliance Supplement, located in the major program section of our electronic working paper file along with the audit program, and the grant awards to determine the types of activities allowed or unallowed under the terms of the award.

The attribute testing columns of our Activities Allowed or Unallowed compliance testing workpapers reference the response in audit program step 5, and therefore incorporate the relevant requirements (attributes for testing) stated in the 2021 OMB Compliance Supplement.

Observation #2: Lack of Testing over Workforce Innovation and Opportunity Act (WIOA) Subrecipient Reporting

Firm Response

The New Mexico Workforce Solutions Department operates its WIOA program by passing through federal funds to four regional subrecipients. The OIG claims the Firm did not conduct internal control and compliance testing of the subrecipients' reporting, and cites the 2021 OMB Compliance Supplement, Suggested Audit Procedures – Compliance on pages 3-L-5 and 3-L-6 (L. Reporting), for the minimum requirements.

Assurance, tax, and consulting offered through Moss Adams LLP. ISO/IEC 27001 services offered through Cadence Assurance LLC, a Moss Adams company.
Investment advisory services offered through Moss Adams Wealth Advisors LLC.



Ms. Carolyn R. Hantz
U.S. Department of Labor OIG
February 10, 2023
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With respect to the Reporting compliance requirement for the WIOA program, as reflected in our electronic working papers, Moss Adams tested the identified significant internal controls over compliance in place at New Mexico Workforce Solutions Department, as required, and determined these controls were operating effectively. Moss Adams also tested New Mexico Workforce Solutions Department's compliance with the Reporting compliance requirement, primarily through the suggested audit procedures in the 2021 OMB Compliance Supplement applied to an appropriately selected sample of reports. As documented in our electronic working paper file, these procedures included tracing and reconciling the reported amounts, including aggregated data from any of the four regional subrecipients, to the SHARE system, the State of New Mexico's state-wide reporting system, which all New Mexico agencies (except the New Mexico State Fair) use to account for all financial transactions.

Unlike some sections in Part 3 of the Compliance Supplement, Section L. Reporting does not include specific audit objectives or suggested audit procedures requiring the pass-through entity's auditor to perform internal control or compliance testing at the subrecipient level. Instead, the auditor of a pass-through entity evaluates the pass-through entity's subrecipient monitoring (Section M. Subrecipient Monitoring).

In accordance with its WIOA Monitoring Manual, which is included in our electronic working paper file, New Mexico Workforce Solutions Department performs specific procedures to monitor the various financial and performance reporting requirements it passes down to its subrecipients. These procedures include reviewing payroll documentation to support quarterly reports and other reconciling items. As indicated in our workpaper SA-285-3 (not SA 283-3 as noted in OIG's draft report) Moss Adams reviewed documentation maintained by the WIOA compliance group at New Mexico Workforce Solutions Department for the two selected subrecipients to test that these procedures were performed. We did not retain this client documentation in our files, and no reportable issues were identified.

We believe the audit procedures we have performed are sufficient to achieve the stated audit objectives in the 2021 OMB Compliance Supplement.

Sincerely,

A handwritten signature in black ink, appearing to read 'Kory Hoggan', followed by a horizontal line.

Kory Hoggan, CPA
Partner, for
Moss Adams LLP

APPENDIX C: ACKNOWLEDGEMENTS

Key contributors to this report were:

Sean Gilkerson, Audit Director
Grover Fowler, Jr., Assistant Director
Mark Lemke, Senior Auditor
Patrick Trager, Auditor
Walter Bailey, Writer-Editor

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