



U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Quality Control Review

Quality Control Review of Leland O'Neal, CPA, Single Audit for Town of Worthington, West Virginia, for Fiscal Year Ended June 30, 2004

Report No. 09-2-0195

July 14, 2009

Report Contributors:

Leah Nikaidoh
Lisa McCowan

Abbreviations

AICPA	American Institute of Certified Public Accountants
Assistance Agreement	EPA Assistance Agreement No. C546600-01
Auditor	Leland O’Neal, CPA
CFR	Code of Federal Regulations
CPA	Certified Public Accountant
CPE	Continuing Professional Education
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
GAS	Government Auditing Standards
OIG	Office of Inspector General
OMB	Office of Management and Budget
Recipient	Town of Worthington, West Virginia
SEFA	Schedule of Expenditures of Federal Awards



At a Glance

Catalyst for Improving the Environment

Why We Did This Review

One of the responsibilities of Federal agencies is to conduct quality control reviews of selected audits made by non-Federal auditors. In reviewing the single audit for the Town of Worthington, West Virginia, for the fiscal year ending June 30, 2004, we found a lack of adequate detail in describing the reported deficiencies and how the related recommendations would address the findings reported.

Background

On June 8, 2000, the U.S. Environmental Protection Agency (EPA) awarded the Town of Worthington, West Virginia, a grant for \$1.2 million for designing and constructing a drinking water system. Federal regulations require entities that expend more than \$500,000 of Federal funds in a given year to have a single audit conducted. Leland O'Neal, CPA, conducted the single audit for the fiscal year ending June 30, 2004.

For further information, contact our Office of Congressional, Public Affairs and Management at (202) 566-2391.

To view the full report, click on the following link:
www.epa.gov/oig/reports/2009/20090714-09-2-0195.pdf

Quality Control Review of Leland O'Neal, CPA, Single Audit for Town of Worthington, West Virginia, for Fiscal Year Ended June 30, 2004

What We Found

The single audit report for the Town of Worthington, West Virginia, for the fiscal year ending June 30, 2004, was substandard. According to the *Uniform Quality Control Guide for A-133 Audits*, issued by the President's Council on Integrity and Efficiency, a substandard audit is defined as one that contains significant audit deficiencies that could potentially affect the audit results. The audit did not meet general, field work, and reporting standards as required by the *Government Auditing Standards*. For example,

- The audit documentation did not contain sufficient evidence that the audit was adequately planned and compliance testing was not supported by evidential matter.
- The audit report did not contain a finding that the recipient's accounting system was inadequate when it should have, and did not include a corrective action plan from the recipient.
- The auditor did not meet Federal continuing education requirements.

As a result, the audit report could not be used for its intended purpose, which was to provide the Federal agency with assurance that the grant funds were spent in compliance with Federal requirements.

What We Recommend

We recommend that EPA's Region 3 Regional Administrator:

- Meet with the Town of Worthington officials to ensure that the Town understands Office of Management and Budget Circular A-133 requirements, and its obligations to meet these requirements.
- Designate the Town of Worthington as a high-risk grant recipient, in accordance with Title 40 Code of Federal Regulations Part 31.12, should the recipient receive any new EPA awards.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF
INSPECTOR GENERAL

July 14, 2009

MEMORANDUM

SUBJECT: Quality Control Review of
Leland O'Neal, CPA,
Single Audit for Town of Worthington, West Virginia,
for Fiscal Year Ended June 30, 2004
Report No. 09-2-0195

FROM: Melissa M. Heist
Assistant Inspector General for Audit

Melissa M. Heist

TO: William C. Early
Acting Regional Administrator, Region 3

This is our final report on the quality control review of the single audit of the Town of Worthington, West Virginia, for the year ended June 30, 2004, performed by Leland O'Neal, CPA. The report represents the opinion of the Office of Inspector General (OIG), and the findings contained in this report do not necessarily represent the final U.S. Environmental Protection Agency (EPA) position. The OIG has no objection to the release of this report. We would like to acknowledge the cooperation and assistance provided by Region 3 staff during the course of our review.

The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$152,290.

On February 13, 2009, we issued a draft report to the recipient and the single auditor for comment. Region 3 incorporated responses from the recipient, and responded to our report on April 24, 2009. The single auditor did not respond to the draft report. We modified our recommendations based upon Region 3's response to the draft report. We have included an analysis of Region 3's response in the appropriate sections of this report. Region 3's entire response is included as Appendix B.

Action Required

In accordance with EPA Manual 2750, you are required to submit a written response to our office within 90 days of report date. Your response should include a corrective action plan, including milestones and dates. This report will be available at <http://www.epa.gov/oig>.

If you have any questions or need additional information, please contact Janet Kasper at (312) 886-3059 or kasper.janet@epa.gov, or Leah Nikaidoh at (513) 487-2365 or nikaidoh.leah@epa.gov.

Enclosure

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Chapter 1

Introduction

Purpose

We conducted a quality control review of the single audit¹ for the Town of Worthington, West Virginia (recipient), for the fiscal year ended June 30, 2004. The audit was performed by Leland O’Neal, Certified Public Accountant (CPA). The purpose of the quality control review of a single audit is to determine whether the audit was conducted in accordance with generally accepted government auditing standards and reporting requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, including its related compliance supplement; and other applicable audit guidance.

OMB Circular A-133 § 400 (3) states that one of the responsibilities of Federal agencies is to obtain or conduct quality control reviews of selected audits made by non-Federal auditors. In reviewing the single audit for the Town of Worthington for the year ending June 30, 2004, we found a lack of adequate detail describing the reported deficiencies and how the related recommendations would address the findings reported. In addition, we found that the Schedule of Expenditures for Federal Awards (SEFA) did not meet the requirements of OMB Circular A-133 § 310(b). As a result, we initiated a quality control review.

As part of performing a quality control review, the reviewer is to determine whether a noncompliance results in a substandard audit or a technically deficient audit. A substandard audit notes significant audit deficiencies that could potentially affect the audit results, thus making the report unusable for fulfilling one or more audit objectives. A technically deficient audit identifies deficiencies requiring corrective action that do not appear to affect the audit results.

Background

EPA awarded EPA Assistance Agreement No. C546600-01 (Assistance Agreement) to the Town of Worthington on June 18, 2000. The assistance agreement was awarded for the project period of June 18, 2000, through September 30, 2004, for a total of \$1,286,787. EPA’s participation was 96 percent, or \$1,235,316, under this grant. The purpose of the assistance agreement was to provide funding to design and construct a drinking water system, including replacing the existing water lines in the Town of Worthington,

¹ The term “single audit” means an audit conducted in accordance with OMB Circular A-133.

replacing existing water meters in the Four States Public Service District, and extending a new drinking water service for certain areas in the district.

Under OMB Circular A-133, non-Federal entities that expend Federal funds of \$500,000 in a given year are required to have a single audit conducted. A single audit has two main objectives: (a) to conduct an audit of the entity's financial statements and the report on the SEFA, and (b) to conduct a compliance audit of Federal awards expended during a fiscal year. OMB Circular A-133 requires that auditors comply with generally accepted government auditing standards when conducting the audit.²

Under Title 40, Code of Federal Regulations (CFR), Part 31.12, a grantee may be considered "high-risk" if the awarding agency determines that the grantee has financial or grants management concerns. The awarding agency can impose special conditions or restrictions on grant awards accordingly.

In December 2004, the recipient entered into a contract with Leland O'Neal, CPA (auditor) to conduct a single audit of the Town of Worthington, West Virginia, for the year ended June 30, 2004. The auditor signed the report on December 29, 2004.

² The audit was for the year ending June 30, 2004. The June 2003 version of *Government Auditing Standards* is applicable to financial audits with performance periods ending after January 2004.

Chapter 2

Noncompliance with Field Work Standards

The single auditor did not meet field work standards when conducting the Fiscal Year (FY) 2004 single audit of the Town of Worthington, West Virginia. Specifically, the audit documentation did not demonstrate that the auditor:

- Adequately planned the audit,
- Adequately supported compliance testing with evidential matter,
- Adequately supported reported conclusions, and
- Performed compliance testing at the Town of Worthington.

Government Auditing Standards (GAS) have three field work standards that require the auditor to: (a) adequately plan the audit work, (b) obtain a sufficient understanding of internal control to plan the audit, and (c) obtain sufficient evidence to provide a reasonable basis for the opinion rendered in the audit report.

To conduct the audit, the auditor relied upon a series of standard checklists from the Practioners Publishing Company's *Guide to Audits of Local Governments*. The intent of the checklists is to provide a standardized method to conduct various aspects of the single audit, such as planning and internal control testing. Other than the checklists, little other documentation supported the single auditor's planning decisions, compliance testing, and reported conclusions.

The audit documentation did not provide sufficient information to show that the single auditor met GAS standards. Therefore, EPA cannot rely on the findings and conclusions presented in the single audit report.

Planning Not Documented

The single auditor did not adequately document his decisions when planning the audit. The purpose of planning is to gain an understanding of the entity's internal controls in order to assess the risk of material misstatement and to design additional audit procedures. The planning documentation the auditor prepared was not sufficient to determine whether GAS standards were met.

GAS has several requirements that pertain to planning the audit that need to be met for an audit to comply with GAS.

- GAS 4.03 requires the auditor to gain a sufficient understanding of internal control in order to plan the audit and design audit procedures.

- GAS 4.17 requires auditors to design the engagement to provide reasonable assurance of detecting material misstatements that result from violations of contract or grant agreement provisions.

The auditor relied upon checklists to plan the audit; we found little other documentation to demonstrate the auditor's understanding of internal controls or what audit procedures the auditor decided were necessary based on that understanding. Below are some examples of the checklists and deficiencies.

- Form SAP-1: *Audit Program for Federal Award Programs - General Procedures* - The first seven program steps relate to planning the assignment. The audit program had preparer initials next to each step to indicate that the step was completed, but did not include indices to supporting documentation that showed what work was performed. Some documents to support the audit steps, such as board meeting minutes and the engagement letter, were included in the audit documentation but were not labeled or indexed. For other steps, audit documentation existed that could have been used to complete the analysis, but no evidence existed that the analysis was actually performed. For example, one of the planning steps requires the auditor to compare the grant budget to actual expenditures to identify any violations or over-expenditures. The auditor indicated on the audit program that the step was performed, and the audit documentation included a copy of the grant budget. However, we found no evidence that the auditor compared the budget to actual expenditures or what conclusions the auditor drew from the analysis. This analysis should have influenced the auditor's testing of allowable activities and cost controls.
- Form GCX-3a: *Planning Form - Audits of Federal Award Programs* - This checklist is to be used to gather planning information on an auditee's operations, organization, and internal controls as they pertain to selected Federal programs. The single auditor did not adequately document conclusions on this checklist or identify related supporting documentation. For example, Question 31 asks if the flow of information through the financial reporting system as it applies to Federal programs is adequately documented. The auditor answered "no" to the question. However, no audit documentation showed how the auditor arrived at that answer. The checklist refers to another checklist, GCX-3, as the basis for the response to Question 31, but that checklist was not included in the audit documentation. The instructions for this question also state that if the single auditor answered "no," then the single auditor needed to either complete two additional checklists or prepare a memorandum covering the flow of information for the Federal programs. The auditor did not provide any such documentation. Therefore, we cannot determine how the auditor concluded that the flow of information through the financial reporting

system was not adequately documented or how that conclusion influenced the audit testing.

Although the single auditor identified in the audit documentation concerns regarding the adequacy of prior years' audits, the auditor did not report this issue in the FY 2004 single audit report. The auditor used checklist GCX-3a to gather the information needed to understand the recipient's internal control system and compliance with laws and regulations. For Step 21, the auditor was asked to describe the nature and cause of the misstatements and programs affected if material misstatements have been noted in prior audits. The auditor indicated on the checklist "*initial years not properly audited.*" The auditor did not provide any other information or documentation to elaborate on the nature of this problem and how this issue would impact the audit of the financial statements and the report on major Federal program compliance. As a result, we cannot determine if this matter was adequately resolved or if it should have been reported as an internal control weakness in the FY 2004 single audit report.

- Form GCX-5d: *Considering Fraud Risk Factors for an Audit of Federal Award Programs* - This checklist is used to document the single auditor's consideration of whether information that has been gathered about the auditee and its operations indicate the presence of one or more fraud risk factors. The single auditor indicated that there were some risk factors for fraud, but did not provide any evidence of how he addressed the risk factors in designing the audit. For example, in Part 1 - Fraudulent Financial Reporting (Opportunities) of the checklist, the single auditor provided several notations in the Optional Comments column, including "N/A," "RIC VI need to meet payroll," "RIC," "RIC VI," "Bldg Acq.," and "RIC in control." Since there was no further explanation of the comments, it was not clear what risk factors the auditor identified, how they were identified, or how the conclusions impacted the audit design.

Insufficient Evidential Matter

The single auditor did not provide sufficient evidential matter to support the conclusions on internal controls and compliance with law, regulations, and grant agreements. GAS 4.03(c) requires the auditor to obtain sufficient competent evidential matter to provide a reasonable basis for the report's opinion. The auditor concluded that the Town of Worthington did not comply with Federal regulations and that the internal controls were not adequate. However, the documentation contained limited or no evidence that the auditor tested those areas for which Federal guidelines require testing. As a result, the documentation did not contain the evidence needed to support the conclusion in the audit report. The single auditor used a standardized checklist to assess and test internal controls for the EPA grant. The checklist, *Internal Control System - Federal Award Programs* (Form SCX-8a), allows the single auditor to assess internal controls for

individual Federal programs selected for audit. The checklist is divided into sections that correspond to the OMB Circular A-133 2003 *Compliance Supplement* audit objectives for the 14 compliance requirements. For those compliance requirements applicable to a Federal program, the single auditor is to assess if the overall objectives of related internal controls have been met, and to conduct tests on the internal controls. The checklist instructions state that as part of internal control testing the auditor should provide references to memos or other worksheets to document evidence of tests performed.

The auditor did not correctly assess which of the 14 compliance areas were applicable to the Town of Worthington. The auditor selected *Real Property Acquisition and Relocation Assistance* as applicable for reviewing the purchase of a building by the grant recipient. However, the auditor should have selected *Equipment and Real Property Management*. The intent of the *Real Property Acquisition and Relocation Assistance* compliance area is to assess a government's acquisition of real property for a Federal program or project resulting from displacement, as allowable under the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended. Since the purchase of the building was not part of a relocation effort due to displacement, the single auditor should have assessed this acquisition under the *Equipment and Real Property Management* compliance area.

No Evidence of Testing

While the auditor identified nine compliance areas as being applicable to the Town of Worthington, the audit documentation did not show any evidence of testing for three compliance areas, as shown in Table 2-1.

Table 2-1: Analysis of Compliance Supplement Requirements

Compliance Supplement Area Tested	No Evidence of Testing	Limited Documentation of Testing
Allowable Activities		X
Allowable Costs		X
Cash Management		X
Davis-Bacon Act	X	
Eligibility	X	
Matching, Level of Effort		X
Procurement	X	
Real Property Acquisition, Relocation		X
Reporting		X
Total	3	6

Source: Selected audit areas from single audit documentation; noncompliance information based upon Office of Inspector General (OIG) analysis

For example:

- To test compliance with the Davis-Bacon Act, the auditor is required to determine whether the non-Federal entity notified contractors and subcontractors of the requirements to comply with the Davis-Bacon Act and obtained copies of certified payrolls. The auditor marked on the checklist that controls were effective, but audit documentation contained no evidence to support the conclusion or what testing was performed.
- To test compliance for procurement, the auditor is required to determine whether procurements were made in compliance with the provisions of OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*, and other procurement requirements specific to an award. The auditor marked on the checklist that matters controlled by the project management contractor were not adequate. However, no audit documentation or analysis supported this conclusion or what testing was performed.

Lack of Evidential Support

For six compliance areas tested, there was an overall lack of evidential support for the testing performed and to support the applicability of testing to compliance supplement requirements and the outcome of the test results as presented in the single audit report. For example:

- The single auditor assessed the internal controls as ineffective for three compliance areas: *Allowable Activities*, *Allowable Costs*, and *Reporting*. For the first two compliance areas, the single auditor stated in the comments column that all transactions were examined. For the reporting compliance area, the single auditor stated in the comments column that this area was the responsibility of the project administration contractor. While some audit documentation could have been attributed to these three compliance areas, the single auditor did not specifically identify or document any testing of related internal controls, or how the results of testing related to specific major program compliance supplement requirements. Therefore, we could not determine if the single auditor's assessment is valid.
- The single auditor assessed the internal controls to be ineffective for *Cash Management and Matching*, *Level of Effort*, *Earmarking* requirements and reported a finding for each requirement (Findings 04-04 and 04-05). When we initially reviewed the single audit documentation provided, we could not readily identify the documentation that related to these findings. Only through additional written explanation provided by the single auditor were we able to identify the worksheet that the single auditor prepared to assess this compliance area.

Lack of Documentation

The audit did not comply with the GAS standard for audit documentation. GAS 4.22 requires that auditors prepare documentation in sufficient detail to provide a clear understanding of the work performed, the audit evidence obtained, and the conclusions reached. As described in the *Evidential Matters* section of this report, audit documentation was not sufficient for us to determine how the auditor planned the audit or the nature and extent of testing that he performed. As a result, the audit of the Town of Worthington did not meet the standard for documentation.

The American Institute of Certified Public Accountants (AICPA) standards state that audit documentation is an essential element of audit quality and provides the principal support for the auditor's report. While the standards do allow for professional judgment in regards to the quantity, type, and content of audit documentation, the standards do state that audit documentation should enable an experienced auditor to understand:

- The nature, timing, and extent of audit procedures;
- The results of the audit procedures and evidence obtained; and
- The conclusions reached on significant matters.

As discussed in the *Evidential Matters* section of this report, the audit documentation often did not identify what procedures the auditor performed to evaluate compliance with Federal requirements. While the auditor did indicate on the checklists whether he concluded that controls over specific areas were effective or ineffective, because we could not identify related audit documentation it was not always clear to us how the auditor reached those conclusions.

The single auditor issued an adverse opinion on the report of major program compliance. From the documentation that he provided, we could not determine how he arrived at an adverse opinion. In a conference call with us, the auditor stated that he issued an adverse opinion because he had to reconstruct the Town of Worthington's financial records. Without this explanation, we would not been able to determine why he issued an adverse opinion on the report on major program compliance.

The single auditor provided a variety of documents to support his audit work, but we could not easily relate these documents to audit steps performed. The documents were missing specific information, such as the purpose, source, and conclusions. For example, a copy of the Town of Worthington's cash receipts journal for the EPA project was included in the audit documentation. No indication existed on this document as to its purpose, who prepared the document, or what audit steps were performed to evaluate the information.

Similar issues regarding the completeness of the audit documentation were identified in the single auditor's peer review conducted for the fiscal year ended December 31, 2004. The reviewer found the practitioner to be in substantial compliance, but identified the following issues that he provided separately in a letter to the single auditor:

The firm's quality control policies and procedures require the engagement partner to document planning stages of audit engagements in the area of assessment of fraud risk factors within the internal control structure and planning materiality. During our review of engagements, we noted instances where this documentation was partial and incomplete. We satisfied ourselves that the engagement partner appropriately addressed the issues that did not completely document the conclusions.

Major Program Compliance Testing Not Done for Recipient

No evidence existed in the audit documentation that the auditor tested compliance with program requirements at the Town of Worthington. The auditor focused his review on the organization that administered the grant for the town. The auditor did not evaluate the town's oversight of the contractor. The Town of Worthington had a contract with West Virginia's Region VI's Planning and Development Council to administer the water project, including the grant. The auditor's report stated that the contractor assumed responsibility for compliance as one consideration in its contract as project administrator. The single auditor assessed the contractor's compliance with program requirements, but no evidence existed that he assessed the Town of Worthington's compliance.

As part of the procurement compliance testing, the auditor is to evaluate the grant recipient's monitoring of contracting activities. One of the questions the auditor is to consider is whether management has a policy to periodically review contractor activities and take follow-up action for identified problems. The auditor indicated on the checklist that a policy did not exist, but no indication existed that additional testing was performed to address the issue. In the report, the auditor expressed concerns about the contractor's management of the grant, but no indication existed about what the Town was doing to oversee the contractor.

Recommendations

We recommend that EPA's Region 3 Regional Administrator:

- 2-1 Meet with the Town of Worthington officials to ensure that the Town understands OMB Circular A-133 requirements and its obligations to meet these requirements.

- 2-2 Designate the Town of Worthington as a high-risk grant recipient, in accordance with 40 CFR 31.12, should the recipient receive any new EPA awards. As part of this process, Region 3 should conduct a pre-award financial management analysis of the recipient, to ensure that the recipient has the ability to manage its grant funds in accordance with Federal regulations.

Auditee Response and OIG Evaluation

Region 3 coordinated with the Town of Worthington, West Virginia, and provided a response to the draft report on April 24, 2009. Region 3 spoke with the Town Mayor on two occasions to discuss the recipient's responsibilities under OMB Circular A-133.

In the draft report, we had two recommendations that the Region did not agree to, as follows:

- Require the Town of Worthington and the single auditor to develop a plan to address the deficiencies identified in the single audit, including additional planning and testing that may need to be performed.
- Require the Town of Worthington to submit a revised single audit report for FY 2004.

Since the OIG determined that the single audit report was substandard, Region 3 did not believe that addressing the audit report deficiencies and reissuing the single audit report would be the best options. Instead, Region 3 proposed that, for future awards, the Town of Worthington would be designated as high-risk, in accordance with 40 CFR Part 31.12, and appropriate special conditions would be imposed upon the Town.

Under 40 CFR Part 31.12, a grantee may be considered "high-risk" if the awarding agency determines that the grantee has financial or grants management concerns. The awarding agency can impose special conditions or restrictions on grant awards accordingly. As discussed under *Major Program Compliance Not Tested* section, the single auditor did not perform major program compliance testing for the Town of Worthington. Therefore, we have no assurance that the Town of Worthington had the programmatic ability to manage its assistance agreements. Also, as discussed in Chapter 3, the recipient was unable to prepare its Schedule of Expenditures of Federal Awards and related notes because the recipient did not have adequate accounting records. Given these concerns, we agree that it would be appropriate for Region 3 to make a high risk determination for the Town of Worthington for any future grant awards.

Region 3, when it was performing close-out of this grant, stated that it contacted the single auditor. Region 3 discussions with the single auditor were not productive. Region 3 questioned the quality of the single audit report, and did not place any reliance on the findings. Instead, Region 3 performed its own review of the grant final payment package and determined that all of the costs claimed by the Town were eligible. Region 3 also noted that, as part of grant oversight, Region 3 had the West Virginia Bureau of Public Health perform grant management oversight, including review of procurements and project inspections.

The single auditor did not provide any formal response to the draft report to Region 3 for consideration.

Region 3's discussions with the Town of Worthington regarding its responsibilities under OMB Circular A-133 addressed Recommendation 2-1. Therefore, no further action is required for this recommendation.

In light of Region 3's response and our document review, we deleted Recommendations 2-2 and 2-3 that were presented in the draft report, and incorporated Region 3's suggested recommendation for high-risk designation. We reviewed project officer documentation related to Region 3's review and close-out of the grant. Region 3's review of the final grant payment package, and oversight performed by the West Virginia Bureau of Public Health provided adequate assurance that the costs claimed by the Town were allowable for reimbursement by EPA.

Chapter 3

Noncompliance with Reporting Standards

The Town of Worthington, West Virginia, FY 2004 single audit report did not meet the report requirements of OMB Circular A-133. The report did not include:

- A finding that the recipient's accounting system was not adequate.
- A corrective action plan from the recipient.
- Applicable Federal criteria that would be relevant to findings.
- Notes to the Schedule of Federal Expenditures (SEFA)

As a result, the single audit report did not meeting GAS reporting requirements and was not adequate to allow EPA to assess the Town of Worthington's compliance with applicable Federal regulations.

Inadequate Recipient Accounting System Not Reported

The recipient did not prepare its SEFA, as required by OMB Circular A-133. The single auditor informed us that he had to prepare the recipient's SEFA because the project administration contractor's accounting records were inadequate. The single auditor should have reported that the recipient was in noncompliance with OMB Circular A-133 and 40 CFR Part 31.20.

Federal regulations state that the grant recipient is to identify the amounts expended under Federal grants and the recipient is to maintain records showing how the funds were used. OMB Circular A-133 §.300(a) states that the auditee shall identify in its accounts all Federal awards received and expended and the Federal programs under which they were received. Section .300(d) states that the auditee will prepare appropriate financial statements, including the schedule of expenditures of Federal awards. Also, 40 CFR Part 31.20(b)(2) states that grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.

In Finding 04-01 in the single audit report, the single auditor reported that the project administration contractor did not construct proper journals of original entry and related ledgers to allow the Town to prepare its accounting entries correctly. As the Town of Worthington is the grant recipient, the Town is responsible for preparing the SEFA, not the single auditor or the project administration contractor. If the grant recipient is unable to prepare the SEFA, the single auditor should have reported this fact as a noncompliance with OMB Circular A-133. If the Town's accounting records were inadequate due to incomplete information from its contractor, then the single auditor should have reported that the Town's accounting system did not meet the requirements of 40 CFR Part 31.20.

No Corrective Action Plan

OMB Circular A-133 requires the recipient to prepare and submit a corrective action plan in the single audit report when there are reported findings. The single auditor obtained comments from the project administration contractor regarding the single audit findings. There was no evidence in the audit documentation or single audit report showing that the single auditor: (1) submitted the draft report to the Town of Worthington for its response, and (2) obtained a corrective action plan from the recipient to include in the single audit report. Because the single audit report did not include a corrective action plan from the recipient, the single audit report is incomplete.

Federal Criteria Not Cited

The single audit findings did not contain sufficient applicable Federal criteria that would be relevant to findings. The single auditor either included only State-related criteria or general citations to Federal criteria, or had no reference to criteria. Without properly identifying relevant criteria, EPA will not have all the information it needs to adequately resolve single audit findings with the grant recipient.

OMB Circular A-133 § 510(b) states that audit findings shall be presented in sufficient detail for the auditee to prepare a corrective action plan and take corrective action, and for Federal agencies and pass-through entities to arrive at a management decision. OMB Circular A-133 § 510(b)(2) specifically states the criteria or the specific requirement upon which the audit finding is based will be included as part of the single audit finding.

The single auditor reported eight findings in the single audit report. For one finding, the single auditor identified State criteria but no Federal criteria (Finding 04-01). For two other findings, the single auditor generally referenced OMB Circular A-133 or OMB Circular A-87 but did not include the specific applicable citations (Findings 04-06 and 04-07). For five remaining findings, the single auditor did not identify any criteria in his report (Findings 04-02, 04-03, 04-04, 04-05, and 04-08). Details of our analysis are presented in Schedule 1.

Schedule of Expenditures of Federal Awards Incomplete

The SEFA, as opined on by the single auditor, did not include required notes. OMB Circular A-133 § 310(b)(4) specifically states, at a minimum, the schedule shall include notes that describe the significant accounting policies used in preparing the schedule. The single auditor asserted that as long as notes were in the financial statements, no other notes were required. This point is not correct. The recipient should have prepared required notes as part of its auditee responsibilities.

Corrective Actions

See Chapter 2 for recommended actions to address these issues.

Chapter 4

Noncompliance with General Standards

The single auditor did not meet continuing professional education (CPE) requirements, as required by GAS, for the 2-year period covering the single audit. While the single auditor was able to provide training information to show that he met State requirements, he did not provide information to show that he met more stringent Federal requirements. As a result, the single auditor did not fully comply with professional education requirements required by GAS.

GAS 3.45 requires that each auditor performing work under GAS should complete, every 2 years, at least 80 hours of CPE that directly enhance the auditor's professional proficiency to perform audits and/or attestation engagements. At least 24 hours 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. At least 20 of the 80 hours should be completed in any 1 year of the 2-year period.

We reviewed CPE documentation provided by the single auditor. The single auditor provided CPE information for the period January 1, 2002, to December 31, 2004. For our review, we assessed the training information provided for the 2-year period from January 1, 2003, to December 31, 2004. For this period, the CPA obtained 20 hours of CPE training in 2003 and 44 hours in 2004, for a total of 64 hours. The CPA did meet the requirements to have at least 20 hours in each fiscal year under review, as well as having 24 hours of government-related training. However, the single auditor did not meet the overall requirement of having 80 hours of CPE for the 2-year period under review.

We reviewed the single auditor's peer review report for the fiscal year ending December 31, 2004, to determine if the reviewer identified any issues regarding the single auditor's CPE requirements. While no findings were in the peer review, in a separate letter to the single auditor the reviewer reported:

The firm's quality control policies and procedures require firm personnel to meet the professional development requirements of both their state board of accountancy and the American Institute of Certified Public Accountants. While those requirements were met, the courses taken did not provide firm personnel with sufficient information about current developments in professional accounting standards.

The peer reviewer determined that the single auditor met CPE requirements for the State of West Virginia. However, the State's CPE requirements vary slightly

from GAS. The State requires that for a 3-year rolling period, the single auditor obtain 120 hours of CPE and at least 20 hours in any individual year. While the single auditor met the State's requirements, he did not meet the 2-year continuing professional education requirement for GAS. Therefore, the single auditor may not be qualified to perform any Federal audits, including single audits performed in accordance with OMB Circular A-133.

Auditee Response and OIG Analysis

The single auditor did not provide a response to the draft report. Consequently, we were unable to assess his quality control procedures to ensure that applicable GAS continuing professional education requirements were identified and met. Region 3 does not have any responsibilities to address this noncompliance finding. The OIG will continue to pursue this matter separately with the single auditor.

Schedule 1

Town of Worthington Single Audit Findings and Relevant Federal Criteria

Summary of Findings	Criteria Identified in Report	Applicable Criteria
<p>04-01 The project administration contractor failed to properly construct accounting records to allow the town's personnel the ability to make appropriate entries into its journals.</p>	<p>State of West Virginia's Public Service Commission requires the utilization of its prescribed code of accounts; State Auditor requires that books be maintained according to its standards.</p>	<p>40 CFR Part 31.20(b)(1) states the financial management systems of other grantees and subgrantees must meet the following standard: Financial Reporting. Accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.</p>
<p>04-02 The town filed inaccurate annual reports with the State. The town provided incomplete books and financial statements to the auditors for these same years.</p> <p>The noncompliance was due to the professional administration contractor's failure to meet its contracted responsibility and created major inaccuracies in the town's financial filings with the State.</p>	<p>No criteria identified.</p>	<p>40 CFR Part 31.20(b)(1) as presented above.</p>
<p>04-03 The project administration contractor wrote a check to the town to purchase a building. However, the building is encumbered by a lien that precludes the purchase.</p> <p>Further, the contractor was aware that the Town Council had previously chosen not to enter into this transaction under the current circumstances. As such, the contractor intentionally controverted the will of Council.</p> <p>This expenditure is disallowed and Region VI should recover these grant and loan monies since the expenditure was unauthorized. Further, Region VI should file the appropriate financial forms with the State and Federal agencies showing the money as being recovered.</p>	<p>No criteria identified.</p>	<p>OMB Circular A-87, Attachment B, paragraph 19(c) states that capital expenditures for equipment, including capital assets, and improvements are unallowable as direct charges except where approved in advance by the awarding agency.</p> <p>The grant award documents showed the scope of the grant was to provide funding to design and construct a drinking water system to replace the existing water lines in the Town of Worthington, replace existing meters, and extend new drinking water service. There was no specific approval for the purchase of the building, nor was the building identified in the scope of the project. Also, the building was to be used for the Town as an administrative office. This type of expense would normally be treated as an indirect expense.</p>
<p>04-04 There was a 4% matching requirement. In reviewing cash draws, during fiscal years 2001 and 2002, the project administrator paid themselves and the engineering firm entirely from EPA grant funds without any matching level of effort.</p> <p>The project administrator also failed to utilize separate checking accounts for the EPA grant monies and the matching loan money. Also, separate checks were not written for expenditures whereby the matching level of effort could be recognized and accounted for in journals. As such, making a determination regarding the matching level of effort is not possible in the years when loan monies were in fact drawn and utilized for the costs of the project.</p>	<p>No criteria identified.</p>	<p>40 CFR Part 31.24(b)(6) states that for matching, costs and third party in-kind contributions counting towards satisfying a cost-sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors.</p>

Summary of Findings	Criteria Identified in Report	Applicable Criteria
<p>04-05 The project administration contractor failed to properly manage the cash utilized for the payments of the project costs. The contractor drew cash funds in June 2002, but did not expend the funds until February 2003. The contractor also commingled the EPA grant funds and matching funds, as such, it was not possible to isolate that proper cash management occurred during fiscal years 2003 and 2004.</p>	<p>Auditor stated that project administrator violated reimbursement requirement, but did not cite specific criteria.</p>	<p>40 CFR Part 31.21(b) states method and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee and subgrantee, in accordance with Treasury regulations at 31 CFR Part 205.</p>
<p>04-06 As part of initial preparations for the single audit, the single auditor requested expenditure information from the project administration contractor. Over the course of the audit, various amounts were provided by the contractor. Ultimately, the single auditor determined that Federal expenditures were \$885,759, as presented in the SEFA.</p> <p>Also, based upon the conversations with the contractor, the contractor was unaware of the \$500,000 threshold and the prior \$300,000 threshold that requires the OMB Circular A-133 to apply.</p>	<p>OMB Circular A-133, but no specific citations.</p>	<p>40 CFR Part 31.20(b)(1), as described previously, under Finding 04-01.</p> <p>OMB Circular A-133 § 200(a).</p>
<p>04-07 The project administration contractor did not budget for the cost of the single audit. The project administration contractor refused to recognize the need to fund audit costs.</p>	<p>OMB Circular A-87, but no specific citations.</p>	<p>OMB Circular A-87, Appendix B, (5), allowability of single audit costs.</p>
<p>04-08 The project administration contractor did not perform its contracted duties, as described in its contract with the Town of Worthington.</p> <p>The single auditor questioned the reasonableness of the fee paid to the project administration contractor, stating that in an arms-length transaction, the reasonable value of their services would not exceed \$15,000, although the contract was for \$50,000. The single auditor questioned all fees paid to the contractor, totaling \$49,965.</p>	<p>No criteria cited.</p>	<p>40 CFR Part 31.36 Procurement :</p> <p>(b) <i>Procurement standards.</i> (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable federal law, the standards identified in this section, and if applicable, §31.38.</p> <p>(2) Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.</p> <p>(8) Grantees and subgrantees will make awards only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement. Consideration will be given to such matters as contractor integrity, compliance with public policy, record of past performance, and financial and technical resources.</p> <p>OMB Circular A-87, Appendix A, § C(1)(a) states that for a cost to be allowable, it must be necessary and reasonable for proper and efficient performance of the Federal award.</p>

Sources: Finding information from single audit report; criteria presented based upon OIG analysis.

Schedule 2**Status of Recommendations and Potential Monetary Benefit**

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
2-1	9	Meet with the Town of Worthington officials to ensure that the Town understands OMB Circular A-133 requirements and its obligations to meet these requirements.	C	Regional Administrator, Region 3	04/24/2009		
2-2	10	Designate the Town of Worthington as a high-risk grant recipient, in accordance with 40 CFR 31.12, should the recipient receive any new EPA awards. As part of this process, Region 3 should conduct a pre-award financial management analysis of the recipient to ensure that the recipient has the ability to manage its grant funds in accordance with Federal regulations.	O	Regional Administrator, Region 3			

¹ O = recommendation is open with agreed-to corrective actions pending
C = recommendation is closed with all agreed-to actions completed
U = recommendation is undecided with resolution efforts in progress

Appendix A***Scope and Methodology***

We conducted a quality control review of the single auditor's audit of the Town of Worthington, West Virginia, for the fiscal year ended June 30, 2004, signed by the single auditor on December 29, 2004, and the resulting reporting package that was submitted to the Federal Audit Clearinghouse dated January 26, 2005. We performed the review using the 1999 edition of the *Uniform Quality Control Review Guide for A-133 Audits*, issued by the President's Council on Integrity and Efficiency. This guide applies to any single audit subject to the OMB Circular A-133 and contains the approved checklist of the President's Council on Integrity and Efficiency for performing the quality control reviews. We assessed the auditor's compliance with general, field work, and reporting standards, as contained in the *Government Auditing Standards*.

In May 2006, we performed our initial review of the single audit report. We identified potential issues and contacted the single auditor accordingly. Subsequent requests were made for additional documentation, which we received from the single auditor. We had to obtain additional explanations, which had to be in writing as requested by the single auditor. Based on the explanations, we began our quality control review in October 2007.

The review was performed in accordance with applicable *Government Auditing Standards*, issued by the Comptroller General of the United States (June 2003 version). We reviewed the audit documentation prepared by the single auditor and discussed the audit results with the single auditor. We also interviewed the EPA grant specialist responsible for awarding the grant to the Town of Worthington. We interviewed the Region 3 project officer responsible for managing the Town of Worthington grant. We also contacted the Town of Worthington regarding grant expenditure information for FY 2003.

We had no prior audit coverage of the Town of Worthington, West Virginia, or the auditor, Leland O'Neal, CPA.

Appendix B

Auditee's Response

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
Region III
1650 Arch Street
Philadelphia, PA 19103-2029

April 24, 2009

SUBJECT: Quality Control Review
Leland O'Neal, CPA
Single Audit for Town of
Worthington, West Virginia, for
Fiscal Year Ended June 30, 2004
Assignment No. 2007-0582

FROM: Edward H. Chu /s/
Acting Assistant Regional Administrator
for Policy and Management (3PM00)

TO: Robert Adachi,
Director of Forensic Audits
Office of Inspector General (IGA-1-1)

As requested by your office, we have reviewed the subject audit report and the grantee's response to the findings. Our response to the findings is as follows:

Recommendation 2-1: Meet with the Town of Worthington to ensure that the Town understands OMB Circular A-133 requirements and its obligations to meet these requirements.

Region III Response: Region III concurs with the Office of Inspector General's (OIG) recommendation. Region III spoke to Mr. Edward Burley, the Mayor of the Town of Worthington in October 2008 and April 2009. He understands that the Town is obligated to meet OMB A-133 requirements. Mr. Burley explained that the Town was put on a bid list by the state auditor's office. The Town received a list of qualified auditors in which the Town can request a proposal or an auditor may call the Town and request a request for proposal (RFP). An audit committee selected Mr. Leland O'Neal from the list of qualified auditors. The Town assumed that all of the auditors on the list would possess the required qualifications to conduct a single audit and the Town clearly hired Mr. Leland O'Neal in good faith.

Recommendation 2-2: Require the Town of Worthington and the single auditor to develop a plan to address the deficiencies identified in the single audit, including additional planning and testing that may need to be performed.

Region III Response: Region III does not concur with this recommendation. Since the OIG report concluded that the single audit report was substandard, Region III does not believe that addressing deficiencies from the report is the best option. Region III proposes that in accordance with the Code of Federal Regulations 40 (CFR) 31.12 that Region III classify the Town of Worthington as high risk, if the town is awarded any future EPA grants, and impose additional special conditions.

Also, Region III would like the OIG to be aware of some of the specifics regarding this grant. The Town of Worthington hired Region VI Planning and Development Council to provide grant management oversight. Region III had the West Virginia Bureau for Public Health (BPH) perform Grant Management Oversight for this grant. Among other things, BPH reviewed bids submitted by the contractors and conducted a final inspection on August 31, 2004. In November 2004, BPH submitted the final payment package with a summary of the invoices and proof of payment. Soon thereafter, Region III received a copy of the Single Audit. After several non-productive phone calls with the single auditor Region III questioned the quality of the report and did not place reliance on the findings. Region III reviewed the final payment package carefully and determined that all of the claimed costs reimbursed to the Town were eligible.

Finding 2-3: Require the Town of Worthington to submit a revised single audit report for FY 2004.

Recommendation: Region III does not concur with this recommendation. First, the grant has been closed since March 22, 2006. Second, the Town paid Mr. Leland O’Neal for the audit and according to the EPA project officer, the costs were not reimbursed under the grant. Lastly, the Town of Worthington selected the auditor from a “qualified list” maintained by the state auditor’s office. Therefore, Region III does not believe it is reasonable to require the Town to obtain another audit report five years after the fact at its own expense.

Region III tried to contact Mr. Leland O’Neil, the single auditor, and received a hostile voice message in return and do not believe further communication will be productive. Therefore, additional attempts to contact him were not pursued. If you have any questions, or need additional information, please contact Lorraine Fleury at 215-814-2341 or fleury.lorraine@epa.gov.

cc: Leah L. Nikaidoh (NWD)
 Lisa McCowan (3AI00)
 Bruce Smith (3WP50)

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Regional Public Affairs Officer

Other

Mayor, Town of Worthington, West Virginia
Single Auditor