



May 20, 2008

Ms. Ada Carrillo
Deputy Director of Policy and Program Operations
Employment Training Panel
1100 J Street, 4th Floor
Sacramento, CA 95814

Dear Ms. Carrillo:

We have completed our external peer review of the Employment Training Panel's Audit Unit (Unit) for audit reports issued July 2004 through December 2007. We followed procedures established by the California Association of State Auditors (CASA) in its Quality Control Review Guide.

We reviewed the internal quality control system of your audit office and tested a sample of audits for compliance with *Generally Accepted Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

We conclude that the system of internal quality control was suitably designed and provided reasonable assurance that GAGAS was followed in the audit work. We also concluded, from the sample of audits tested, that quality controls were working effectively, and audits were conducted in conformance with GAGAS during the period under review.

It is our opinion that the Unit was in compliance with the GAGAS during July 2004 through December 2007. We have prepared a separate letter to management that offers suggestions for further strengthening internal quality controls.

If you have any questions, please contact Kimberly Tarvin, Manager, or Rich Hebert, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure



May 20, 2008

Ms. Ada Carrillo
Deputy Director of Policy and Program Operations
Employment Training Panel
1100 J Street, 4th Floor
Sacramento, CA 95814

Dear Ms. Carrillo:

We have completed our external peer review of the Employment Training Panel's (ETP) Audit Unit (Unit) for audit reports issued July 2004 through December 2007. We issued a report stating our opinion on the Unit's overall level of compliance with *Generally Accepted Government Auditing Standards* (GAGAS). This letter should be read in conjunction with our opinion report.

Overall, we found that the Unit has an internal and quality control system in place to appropriately manage and conduct its activities. The Unit doubled its production July 2004 through December 2007, issuing 50 audit reports compared to the 22 reports issued during previous review period. Furthermore, the Unit has a well-defined audit program. However, we identified areas where the Unit could further strengthen its procedures and implement best practices.

Inadequate Documentation of Audit Finding Revisions in the Working Papers

For three of five audit reports reviewed, audit report findings were added, changed, or deleted without adequate documentation in the working papers supporting the change. Unsupported changes to the audit findings could reduce the effectiveness of the audit report if an entity disputes a finding or disallowed costs and the issue is not supported in the working papers.

Paragraph 7.68 of GAGAS states that audit documentation serves to provide the principal support for the auditors report. Additionally, GAGAS states that the audit documentation should be appropriately detailed to provide a clear understanding of its purpose, source, and the conclusions the auditors reached; and it should be appropriately organized to provide a clear link to the findings, conclusions, and recommendations contained in the audit report.

To ensure that the Unit fully complies with GAGAS, when the supervisor changes, removes, or adds to the findings in the report, the reason for the change and any other relevant information should be clearly documented in the working papers.

Untimely Issuance of Audit Reports

All five of the audit reports reviewed were issued at least 13 months after the working papers and report were submitted to the supervisor for review. This reduced the impact and effectiveness of the reports. If the reports were issued more timely, the ETP could require the implementation of corrective actions sooner and recover disallowed costs earlier. Section 8.39 of GAGAS states the audit report should provide relevant and timely information to be of maximum use to the report users.

To increase the impact and effectiveness of audit reports, the Unit should implement procedures to issue the audit reports timely.

If you have any questions, please contact Kimberly Tarvin, Manager, or Rich Hebert, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

RESPONSE



State of California

Employment Training Panel

Arnold Schwarzenegger, Governor

May 7, 2008

David Botelho, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, CA 95814-3706

Dear Mr. Botelho:

Thank you for the opportunity to review and comment on the *Draft Report-Employment Training Panel [ETP] External Peer Review* issued by the Department of Finance (Finance). ETP recognizes the value of the peer review process and corresponding areas for improvement to strengthen our existing system of controls. We are pleased that your independent review found ETP's Audit Unit to be in compliance with *Generally Accepted Government Auditing Standards (GAGAS)* for audit reports issued July 2004 through December 2007. We also appreciate the report highlighted the twofold increase in audit production and our well-defined audit program.

The report contains two recommendations that, while not affecting the overall opinion, are designed to improve our procedures and implement best practices. Although we concur with these recommendations, we offer the following additional comments for background and clarity for the items discussed in the draft report:

Recommendation No. 1 – Inadequate Documentation of Audit Finding Revisions in the Working Papers

The review stated in part "For three of five audit reports reviewed, audit report findings were added, changed, or deleted without adequate documentation in the working papers supporting the change. Unsupported changes to the audit findings could reduce the effectiveness of the audit report if an entity disputes a finding or disallowed costs and the issue is not supported in the working papers..."

ETP Response: ETP maintains evidence of changes requested to an audit report, prior to its issuance, through its supervisory review process. ETP's supervisory review of all audit reports includes review and completion of the following: 1) "Manager's Checklist Review of Audit Work Papers"; 2) "Manager's Review of Audit Work Papers, Comments/Items for Corrective Action"; and 3) Manager's initials on the draft and/or final audit reports. In the past, the primary source used to identify the need and reason for changes to an audit report are found in Item No. 2 – Comments/Items for Corrective Action. We concur that

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any audit report findings that are changed based on supervisory review should have the ability to stand alone in the work papers, separate from any Audit Manager's checklist or memo, thereby providing a direct link to the findings and recommendations in the report. Thus, we plan to strengthen our review process by having the Audit Manager and/or Auditor-In-Charge document any changes to the report, if applicable, in the corresponding audit work papers.

Recommendation No. 2 – Untimely Issuance of Audit Reports

The review stated in part that “All five of the audit reports reviewed were issued at least 13 months after the working papers and report were submitted to the supervisor for review... To increase the impact and effectiveness of audit reports, the Unit should implement procedures to issue the audit reports more timely.”

ETP Response: Although this delay did not impact the return of monetary findings in the five reports reviewed, as approximately \$25,000 (100 percent of the overpayment) was returned to ETP, we acknowledge that the reports under review were not issued timely. During the period under review, it was necessary for ETP's Audit Director to respond to several internal and external requests that were not planned for in our annual audit work plan. These special work assignments, including an internal program evaluation of a pilot project and review of critical economic development proposals, had an impact on the timely issuance of our audit reports. ETP is now working on making immediate changes to address our audit backlog to improve the timeliness of reports.

We appreciate the thorough manner in which your staff conducted the peer review and generosity in sharing other best practices with our staff. As noted, we have initiated immediate action to implement these suggested recommendations. Should you or your staff have any questions, please contact Charles Rufo, Audit Director at (916) 327-5439.

Sincerely,

Original Signed By:

Ada Carrillo, Deputy Director
Policy & Program Operations

cc: Charles Rufo, Audit Director