



OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Quality Control Review Report

Weiss, Sugar, Dvorak & Dusek, Ltd., Single Audit of the Delta Institute and Affiliates for Year Ended June 30, 2003

Report No. 2006-S-00004

August 17, 2006

Report Contributors:

Leah Nikaidoh
Larry Gunn
James Clark

Abbreviations

AICPA	American Institute of Certified Public Accountants
CFDA	Catalog of Federal Domestic Assistance
EPA	U.S. Environmental Protection Agency
GAO	Government Accountability Office
GAS	Government Auditing Standards
OIG	Office of Inspector General
OMB	Office of Management and Budget



At a Glance

Catalyst for Improving the Environment

Why We Did This Review

We selected this Delta Institute single audit report for review as part of our continual review of single audit report quality under Office of Management and Budget (OMB) Circular A-133.

Background

Under OMB Circular A-133, entities that expend Federal funds of \$300,000 in a year are required to have a single audit conducted. For the year ended June 30, 2003, Delta Institute expended about \$420,000 for work under the Great Lakes Programs (CFDA (Catalog of Federal and Domestic Assistance) No. 66.606 and 66.469). Delta Institute had two affiliates that worked with them: ChicagoLand Redevelopment Institute and Northern Indiana Center for Land Reuse. Delta Institute contracted with Weiss, Sugar, Dvorak & Dusek, Ltd., to conduct the required single audit.

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

To view the full report, click on the following link:

www.epa.gov/oig/reports/2006/20060817-2006-S-00004.pdf

Quality Control Review of Weiss, Sugar, Dvorak & Dusek, Ltd., Single Audit of the Delta Institute and Affiliates for Year Ended June 30, 2003

What We Found

Weiss, Sugar, Dvorak & Dusek, Ltd., did not have sufficient quality control review procedures in place to ensure that all audit work performed was adequately supported by documentary evidence, as required by the government auditing standards. As a result, we found that one finding presented in the single audit report had no documented evidence to support this finding. Until these deficiencies were corrected, we did not have assurance that the single auditor met generally accepted government auditing standards.

What We Recommend

We recommended that Weiss, Sugar, Dvorak & Dusek, Ltd.:

1. Implement adequate quality control procedures to ensure that all audit work, regardless of who performs the audit, is reviewed, to ensure that all audit standards are met.
2. Perform appropriate quality control review of the single audit for Delta Institute and Affiliates for Year Ended June 30, 2003, and provide the documented results of this review to our office for review.
3. Correct audit documentation deficiencies identified, as part of our review.

Weiss, Sugar, Dvorak & Dusek, Ltd., concurred with our recommendations and has completed all corrective action.



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

OFFICE OF
INSPECTOR GENERAL

August 17, 2006

MEMORANDUM

SUBJECT: Quality Control Review of Weiss, Sugar, Dvorak & Dusek, Ltd.,
Single Audit of the Delta Institute and Affiliates for
Year Ended June 30, 2003
Report No. 2006-S-00004

FROM: */s/ Janet G. Kasper*
Janet G. Kasper, Acting Director
Assistance Agreement Audits

TO: Richard Kuhlman, Director
Grants Administration Division

This is our final report on the quality control review of the single audit of the Delta Institute and Affiliates for year ended June 30, 2003, performed by Weiss, Sugar, Dvorak & Dusek, Ltd. 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.

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 – \$50,040.

On July 17, 2006, we issued a draft report to the single auditor for comment. The single auditor agreed with all of the findings in our report, and took appropriate corrective action. We have included an analysis of the single auditor's response in the appropriate sections of this report. The single auditor's entire response is included as Appendix B to our report.

Action Required

The reported finding and related recommendations have been adequately addressed by the single auditor, and no action is required by EPA. Therefore, this report is being closed upon issuance. If you or your staff has any questions regarding this report, please contact me at (312) 886-3059 or Leah Nikaidoh at (513) 487-2365.

Enclosure

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Purpose

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; the audit 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.

Background

Under OMB Circular A-133, entities that expend Federal funds of \$300,000 or more in a given year are required to have a single audit conducted. Subpart D (of OMB Circular A-133) enables the OIG to conduct quality control reviews of single audits. Weiss, Sugar, Dvorak & Dusek, Ltd., conducted the single audit of Delta Institute for the year ended June 30, 2003. Delta Institute and its affiliates incurred \$420,436 expenditures under EPA assistance agreements in FY 2003.

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

Results of Review

Weiss, Sugar, Dvorak & Dusek, Ltd., did not have sufficient quality control review procedures in place to ensure that all audit work performed was adequately supported by documentary evidence, as required by the government auditing standards. As a result, we found that one finding presented in the single audit report had no documented evidence to support this finding. Until these deficiencies were corrected, we did not have assurance that the single auditor met generally accepted government auditing standards.

On July 21, 2006, Weiss, Sugar, Dvorak & Dusek, Ltd., submitted a response to our draft quality control review report. The single auditor agreed with our recommendations and corrected all reported deficiencies. On August 8, 2006, we held an exit conference with the single auditor.

Single Auditor Did Not Have Adequate Quality Control Review Procedures

The single auditor did not have sufficient quality control review procedures in place to ensure that all audit work performed was adequately supported by documentary evidence, as required by the government auditing standards. As a result, we found that one finding presented in the single audit report had no documented evidence to support this finding.

In accordance with Government Auditing Standards (GAS) 3.49, the general standard for quality control and assurance:

Each audit organization performing audits and/or attestation engagements in accordance with GAGAS should have an appropriate internal quality control system in place....

In addition, GAS 4.24(d) requires that the audit work should contain:

evidence of supervisory review, before the audit report is issued, of the work performed that supports findings, conclusions, and recommendations contained in the audit report.

More specifically, GAS 3.50 states:

...An audit organization's internal quality control system should include procedures for monitoring, on an ongoing basis, whether the policies and procedures related to the standards are suitably designed and are being effectively applied.

During our review, we found no evidence that anyone other than the auditor at Weiss, Sugar, Dvorak & Dusek, Ltd., reviewed the Delta Institute single audit report or the supporting working papers. The single auditor agreed that supervisory reviews of the audit report and working papers were not performed. He stated that the firm does not review a partner's working papers. As a partner, he felt that it was unnecessary for his working papers to be reviewed by someone else, i.e., another partner. In addition, being a small CPA firm, each partner acts as a sole practitioner. Also, he stated, he had discussed this situation with the firm's peer reviewers. The peer reviewers, according to the single auditor, did not consider this an issue.

We discussed this issue with the Government Accountability Office's (GAO's) Audit Standards Branch. They told us that in the case where there is more than one partner (i.e., not a sole practitioner), a second partner should perform a review of the working papers, as part of the firm's quality assurance process. If there is no one in the firm that is qualified to perform this review, then the single auditor should contact an outside practitioner to perform this review.

Because the single auditor did not ensure that his work was reviewed to meet government auditing standards, the single auditor failed to adequately document his conclusions and findings. For single audit report Finding 03-03, there was no supporting working papers for this finding. Finding 03-03 in the audit report stated:

Staff responsible for determining activities allowed and allowable costs under programs was not given printed cost principle circulars with which to refer to in making such determinations. It was necessary for staff to refer to such information via the Internet. Costs are allowable charges to programs as mandated by the grant agreement and Circulars A-110, A-122 and 40 CFR 30.21.

The audit report recommended that Delta Institute provide Federal cost principles to staff responsible for accounting and administering grant funds. In its response, Delta Institute agreed with the recommendation stating, "We concur with the recommendation and it was implemented on October 21, 2004." When we asked for support regarding this finding, the single auditor said

that the finding was based on discussions with Delta Institute staff, but the discussions were not documented in the working papers.

There were also instances where working paper conclusions were either missing or incomplete. These deficiencies resulted in the single auditor having to provide verbal explanations to us during our review. The explanations were necessary to determine that the auditor's reported opinions and findings were sufficiently supported.

Working papers should reflect the evidence, and include the objective(s), scope, methodology, criteria, and conclusion(s) on which findings are based. They provide the principal support for the auditor's report and allow for review of audit quality. OMB Circular A-133, Government Auditing Standards, and American Institute of Certified Public Accountants (AICPA) Statements on Auditing Standards all contain requirements for documenting working papers.

Under OMB Circular A-133, single auditors are required to comply with Government Auditing Standards (GAS). In accordance with GAS 4.23, information contained in audit documentation constitutes the principal record of work that the auditors performed in accordance with professional standards and the conclusions that the auditors have reached. GAS 4.22 states that

Audit documentation related to planning, conducting, and reporting on the audit should contain sufficient information to enable an experienced auditor who has had no previous connection with the audit to ascertain from the audit documentation the evidence that supports the auditors' significant judgments and conclusions.

GAS 4.24(d) states that audit documentation should contain evidence of supervisory review, before the audit report is issued, of the work performed that supports findings, conclusions, and recommendations contained in the audit report. GAS 5.16 states that auditors should include in their audit documentation evidence of all communications to officials of the audited entity about deficiencies in internal control found during the audit.

In addition to the audit documentation and supervisory review requirements under GAS 4.22, 4.24, and 5.16, AICPA Statements on Auditing Standards Number 96 requires that audit documentation be sufficient to show that standards of fieldwork have been observed. The criteria for documentation to be included in the working papers should enable reviewers to understand the audit work performed, who performed and reviewed the work, and the nature of the audit evidence examined.

AU Section 339, entitled "Audit Documentation" also provides that, as part of ensuring that adequate audit work is performed and related documentation obtained, the audit firm should have in place a system of quality control policies to ensure that professional standards and generally accepted government auditing standards are met. As part of this system, review of audit documentation by the firm is one of the procedures to monitor compliance with applicable standards.

Single Auditor Response and OIG Evaluation

The single auditor agreed, “All audits performed under generally accepted governmental auditing Standards (GAGAS) will be reviewed by an audit partner of the firm qualified to perform such a review. This will be done even in cases such as the Delta audit where an audit partner has performed substantial portions of the engagement work.” In view of the fact that the single audit firm’s procedures have been changed, and all work under GAGAS, in the future will be reviewed by a partner, the OIG considered this issue resolved.

The single auditor had a partner of the firm qualified to perform and review GAGAS audits has reviewed the subject audit, and provided documentation to support this review. The OIG reviewed the documentation submitted by the single auditor and consider this issue resolved.

The single auditor also prepared a memo to the working papers that documented his discussions with the grant recipient related to Finding 03-03 in the single audit report. The OIG reviewed the documentation submitted by the single auditor and consider this issue resolved.

Due to the fact that the single auditor revised its policy for review of GAGAS audit work, completed a partner review of the Delta Institute and Affiliates, Inc. audit work, and supported the exceptions we noted in our draft report, the single audit now meets GAGAS and OMB Circular A-133 requirements.

Recommendations

We have no recommendations for EPA.

Action Required

All findings in our draft report have been resolved and no action is required by EPA. Therefore, this report has been closed upon issuance. If you or your staff has any questions regarding this report, please contact me at (312) 886-3059 or Leah Nikaidoh at (513) 487-2365.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	At-a- Glance	Implement adequate quality control procedures to ensure that all audit work, regardless of who performs the audit, is reviewed, to ensure that all audit standards are met.	C	Director, Grants Administration Division			
2	At-a- Glance	Perform appropriate quality control review of the single audit for Delta Institute and Affiliates for Year Ended June 30, 2003, and provide the documented results of this review to our office for review.	C	Director, Grants Administration Division			
3	At-a- Glance	Correct audit documentation deficiencies identified, as part of our review.	C	Director, Grants Administration Division			

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

Scope and Methodology and Prior Audit Coverage

Scope and Methodology

We conducted a quality control review of the Weiss, Sugar, Dvorak & Dusek, Ltd., audit of Delta Institute for the year ended June 30, 2003, and the resulting reporting package that they submitted to the Federal Audit Clearinghouse, dated February 10, 2005. We performed the review using the 1999 editions of the *Uniform Quality for Initial Review of A-133 Reports*, and the *Uniform Quality Control Review Guide for the A-133 Audits*, issued by the President's Council on Integrity and Efficiency. These guides apply to any single audit subject to OMB Circular A-133 and the approved checklist of the President's Council on Integrity and Efficiency for performing the quality control reviews.

We conducted our review in April and May 2006 in accordance with applicable *Government Auditing Standards*, issued by the Comptroller General of the United States. We assessed the following areas:

- Qualification of Auditors
- Independence
- Due Professional Care
- Quality Control
- Planning and Supervision
- Federal Receivables and Payables
- Other Standards Affecting Federal Awards
- Determination of Major Programs
- Schedule of Expenditures of Federal Awards
- Audit Follow-up
- Reporting
- Data Collection Form
- Materiality
- Internal Controls
- Compliance Testing

We reviewed the audit documentation prepared by the single auditor, and discussed the audit results with the single auditor representative.

Prior Audit Coverage

None.

Single Auditor's Response

WEISS, SUGAR, DVORAK & DUSEK, LTD.

Certified Public Accountants & Consultants

20 North Wacker Drive, Suite 2250

Chicago, Illinois 60606

Telephone: (312) 332-6622

Facsimile: (312) 332-3707

*Stanley H. Weiss, CPA
David S. Sugar, CPA
Kenneth G. Dvorak, CPA
Frank A. Dusek, CPA
Robert Rehayem, CPA*

July 21, 2006

Mr. Michael A. Rickey, Director
Assistance Agreement Audits
United States Environmental Protection Agency
Washington, D.C. 20460

**RE: Quality Control Review of Weiss, Sugar, Dvorak & Dusek, Ltd.
Single Audit of the Delta Institute and Affiliates
For Year Ended June 30, 2003**

Dear Mr. Rickey:

This correspondence represents our response to your draft quality control review report dated July 17, 2006 on the single audit performed by Weiss, Sugar, Dvorak & Dusek, Ltd., of the Delta Institute and Affiliates for the year ended June 30, 2003. Our specific responses to your recommendations are as follows:

Recommendation 1

We agree that in the future all audits performed under generally accepted government auditing standards (GAGAS) will be reviewed by an audit partner of the firm qualified to perform such a review. This will be done even in cases such as the Delta audit where an audit partner has performed substantial portions of the engagement work.

We wish to point out that most of the work on the Delta audit was performed by a partner of the firm. Junior staff performed limited portions of the audit, and this work was in fact reviewed by the audit partner and documented in our working papers. Our firm has participated in the Peer Review program of the AICPA since 1991 and has received unqualified opinions from our reviewer each year. Our position on partner review of partner work has never been an issue with our peer reviewer. We believe that the results of our peer reviews (which includes audits performed under GAGAS) supports the high level of internal quality controls we maintain. The GAS statements referred to in your report do not specifically address the situation encountered on this audit (i.e. partner on partner review), however, as stated, we will change our policy to comply with your request.

Mr. Michael A. Rickey, Director
July 20, 2006
Page 2

Recommendation 2

A partner of the firm qualified to perform and review GAGAS audits has reviewed the subject audit. This review has been documented on page 4 of the "Nonprofit Organization Audit Supervision, Review, and Approval Form" included in the attached PDF file.

Recommendation 3

We prepared a memo to the work papers documenting our discussions with the client related to Finding 03-03. It is included in the attached PDF file.

If I can be of any further assistance, please do not hesitate to contact me.

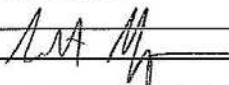
Sincerely yours,

A handwritten signature in black ink, appearing to read "Robert Rehayem", with a long horizontal flourish extending to the right.

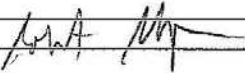

Robert Rehayem

RR/

NCX-19: Nonprofit Organization Audit Supervision, Review, and Approval Form				
Organization: Delta Institute		Statement of Financial Position Date: 06/30/2003		
<p>Instructions: This form should be completed as the last procedure before issuance of the signed auditor's report. Any item answered "No" should be explained in the "Comments" column or in an attached memorandum. File this form in the general file.</p> <p>For audits performed in accordance with <i>Government Auditing Standards</i> (as amended) (Yellow Book), the authors have been informed by a senior GAO official that, based on the official's interpretation of the Yellow Book, the official expects to see "supervisory" initials on "significant" workpapers, such as summary spreadsheets and other "important" workpapers. The supervisory initials may be those of a partner or someone in a supervisory position. (A sole practitioner is not expected to engage another practitioner to review and initial his or her workpapers.) A further explanation of which workpapers are "significant" was not offered.</p>				
	Yes	No	N/A	Comments
Detailed Review (To be performed by the staff person in charge of fieldwork.)				
1. I have reviewed all workpapers prepared by the personnel in my charge on this engagement and, if applicable, have initialed all "significant" workpapers. Each schedule is complete, properly headed, initialed, indexed, and cross-referenced.	✓			
2. I have reviewed the permanent file and general file, and all relevant information has been incorporated or cross-referenced.	✓			
3. I have compared the work performed as evidenced by our work-papers with the procedures called for by the audit programs and find that our audit complies with the requirements of the programs.	✓			
4. I have compared the workpapers with the general ledger trial balance and find that satisfactory audit recognition has been given to all asset, liability, net asset, support, revenue, expense, and reclassification accounts, (and if applicable, program expenditures related to major federal award programs).	✓			
5. I have reviewed all workpapers and am satisfied that all significant audit findings or issues are adequately addressed and documented.	✓			

	Yes	No	N/A	Comments
6. I have reviewed the completed audit programs and am satisfied that our audit, as evidenced by the workpapers reviewed by me, was conducted in accordance with generally accepted auditing standards (and, if applicable, with the GAO's <i>Government Auditing Standards</i> and the requirements related to a Single Audit).	✓			
7. I have compared the accounts in the general ledger trial balance with their summarizations, classifications, descriptions, and disclosures in the financial statements.	✓			
8. I have obtained a review of the tax accrual and provision (if applicable) by the tax department and included their approval in the workpapers. (Optional step.)			✓	
9. I have reviewed the financial statements and am satisfied that they meet accepted standards of presentation and disclosure and that they have been prepared in conformity with generally accepted accounting principles (or an other comprehensive basis of accounting) consistently applied. A financial disclosure checklist has been completed.	✓			
10. If applicable, I have reviewed the Schedule of Expenditures of Federal Awards and am satisfied that it meets accepted standards of presentation and disclosure and that it has been prepared in accordance with Single Audit reporting requirements.	✓			
11. I have reviewed the legal representation and management representation letters for consideration of all important representations.	✓			
12. I have reviewed the auditor's report on the financial statements and am satisfied it properly expresses our opinion in accordance with generally accepted auditing standards (and, if applicable, the GAO's <i>Government Auditing Standards</i>).	✓			
13. If applicable, I have reviewed the auditor's reports required by <i>Government Auditing Standards</i> and OMB Circular A-133 and am satisfied that they are in accordance with the standards described in Step 5.	✓			
In-Charge's Signature: 	Date:			

	Yes	No	N/A	Comments
<p>Partner Review (To be performed by the Engagement Partner. Omit all except the last three items if the detailed review was performed by a Partner.)</p>				
1. I have reviewed the planning documents and am satisfied with the sufficiency of the audit programs.				
2. I have reviewed all workpapers prepared by the personnel in my charge on this engagement that were not reviewed as a part of the detailed review and, if applicable, have initialed all "significant" workpapers.				
3. I have also reviewed sufficient additional workpapers to be satisfied with the adequacy of our audit and with the detailed review.				
4. I have reviewed the completed audit programs and am satisfied that our audit, as evidenced by the workpapers reviewed by me, was conducted in accordance with generally accepted auditing standards (and, if applicable, with the GAO's <i>Government Auditing Standards</i> and the requirements related to a Single Audit).				
5. I have reviewed the financial statements and am satisfied that they meet accepted standards of presentation and disclosure and that they have been prepared in conformity with generally accepted accounting principles (or another comprehensive basis of accounting) consistently applied.				
6. If applicable, I have reviewed the Schedule of Expenditures of Federal Awards and am satisfied that it meets accepted standards of presentation and disclosure and that it has been prepared in conformity with Single Audit reporting requirements.				
7. I have reviewed the legal representation and management representation letters for consideration of all important representations.				
8. I have reviewed the auditor's report on the financial statements and am satisfied it properly expresses our opinion in accordance with generally accepted auditing standards (and, if applicable, the GAO's <i>Government Auditing Standards</i>).				

	Yes	No	N/A	Comments
9. If applicable, I have reviewed the auditor's reports required by <i>Government Auditing Standards</i> and OMB Circular A-133 and am satisfied they are in accordance with the standards described in Step 4.				
10. I have reviewed documentation relating to any significant audit findings or issues, significant consultations, unusual technical issues, and resolution of disagreements on technical issues among personnel assigned to the audit engagement. In addition, I am satisfied that consultation has occurred in all areas required by firm policy and any other areas deemed necessary.	✓			
11. I have communicated to the engagement team the importance of exercising professional skepticism. I have ascertained that there has been appropriate communication among the engagement team throughout the audit regarding information or conditions that indicate risks of material misstatement due to fraud.	✓			
12. I approve issuance of our report on the financial statements.	✓			
Partner's Signature: 	Date:			
	Yes	No	N/A	Comments
Review by Independent Partner or Independent Review Department (Required only at the Engagement Partner's option or if the firm's quality control policies and procedures require this step.)				
1. The preceding review sections of this form have been completed to my satisfaction.	✓			
2. I have read the financial statements and the auditor's reports referred to in the previous section (as applicable).	✓			
3. I approve issuance of our report on the financial statements.	✓			
Completed by: 	Date: 7/06			
	Yes	No	N/A	Comments
Partner Signing Auditor's Report(s)				

The Delta Institute

Memo Re: Cost Principles for Government Funds

June 30, 2003

Based on discussions with Delta personnel (Saundra Fleming – Accountant, Janet Hanley – Outside CPA and Lillian Saez – Bookkeeper), it was noted that Delta staff responsible for determining activities allowed and allowable costs under programs were not given printed cost principle circulars with which to refer to in making such determinations. The staff should be given and trained in the use of Circulars A-110, A-122 and 40-CFR 30.21.

This situation will be reported in the Findings and Questioned Costs section of the single audit report.

Distribution

EPA

Director, Grants Administration Division
Audit Followup Coordinator, Grants Administration Division
Agency Followup Coordinator
Director, Office of Grants and Debarment
Acting Inspector General

External

Weiss, Sugar, Dvorak & Dusek, Ltd.,