



Transmitted via e-mail

June 27, 2011

Mr. David Guzman, Chief
Program Operations Division
Employment Training Panel
1100 J Street, 4th Floor
Sacramento, CA 95814-2826

Dear Mr. Guzman:

Final Report—Employment Training Panel External Peer Review

Enclosed is our external peer review report and management letter for the Employment Training Panel Audit Unit (Audit Unit). The report provides an opinion on the Audit Unit's compliance with Government Auditing Standards (GAS) issued by the Comptroller General of the United States.

The enclosed report and management letter are for your information and use. The Audit Unit response to our draft report and our evaluation of the response are incorporated into this final report.

This report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov/> within five working days of this transmittal.

We appreciate your staff's cooperation and assistance during our review. If you have any questions regarding this report, please contact Jennifer Whitaker, Manager, or Rich Hebert, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: Mr. Stephen Runkle, Audit Manager, Employment Training Panel

June 27, 2011

Mr. David Guzman, Chief
Program Operations Division
Employment Training Panel
1100 J Street, 4th Floor
Sacramento, CA 95814

Dear Mr. Guzman:

We have completed an external peer review of the Employment Training Panel's Audit Unit (Audit Unit) for the period January 2008 through June 2010. In conducting our review, we followed standards and guidelines contained in the *Peer Review Guide* by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your Audit Unit and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* (GAS) 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 also evaluated whether specific audits and associated working papers met GAS requirements. The enclosed attachment lists the specific audits and associated work papers we considered while conducting the peer review.

Based on the results of our review, it is our opinion that, except for the deficiency noted below, the Audit Unit's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits during the period January 2008 through June 2010.

The Audit Unit's Procedures Manual has not been updated for requirements set forth in the 2007 version of GAS. The primary sections of GAS requiring revisions to the Procedures Manual include Chapter 3, General Standards, sections 3.53-3.54 (quality assurance) and Chapter 8, Reporting sections 8.30-8.31 (reporting compliance with GAS). Section 3.53-3.54 requires an audit organization to monitor its quality control system at least annually. The Audit Unit has not implemented an annual internal assessment of its Quality Control System. Additionally, section 8.30-8.31 requires an audit organization to use specific language in its reports to indicate whether an audit was conducted in compliance with GAS. The audit reports reviewed for audits beginning on or after January 1, 2008 did not contain the required GAS language.

We have also prepared a management letter to acknowledge the Audit Unit's strengths and a suggestion for improvement.

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

Sincerely,

Original signed by:

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

Attachment

Employment Training Panel Audit Unit

**Performance Audits Reviewed During the Peer Review
January 1, 2008 through June 30, 2010**

<u>Fiscal Year</u>	<u>Assignment Number</u>	<u>Assignment Title</u>
2008	ET03-0355	Chevron USA, Inc.
2009	ET04-0489	Long Beach Workforce Development Bureau
2009	ET05-0140	Progressive Casualty Insurance Company
2010	ET06-0294	Adcon Technical Institute, Inc. D. B. A. ATI College
2010	ET08-0428	MemoryTen, Inc.
2010	ET05-0107	Evolution Manufacturing Trade Association



June 27, 2011

Mr. David Guzman, Chief
Program Operations Division
Employment Training Panel
1100 J Street, 4th Floor
Sacramento, CA 95814

Dear Mr. Guzman:

Management Letter–Employment Training Panel External Peer Review

We have completed an external peer review of the Employment Training Panel's Audit Unit (Audit Unit) for audit reports issued during the period January 2008 through June 2010. We issued a report stating our opinion concerning your organization's overall level of compliance with *Government Auditing Standards* (GAS). We are issuing this management letter to offer certain observations and suggestions stemming from our peer review.

We would like to mention areas where the Audit Unit excels. The Audit Unit has developed standardized templates for many documents. These provide additional assurance that GAS standards are followed. In addition, the Audit Unit has monitored its compliance with GAS by obtaining an external peer review every three years.

The management letter from the 2008 peer review noted inadequate documentation of audit finding revisions in the work papers. During our review, we found that changes to audit findings were adequately documented in the work papers.

We offer the following observation and suggestion to help your organization achieve full compliance with GAS.

Report Timeliness

We noted that reports for four of six assignments were issued over one year after the completion of fieldwork. This issue was originally identified in the 2008 peer review. The Audit Unit indicated to us they have substantially improved report timeliness since the end of the current peer review reporting period. We encourage the Audit Unit to continue with their monitoring process to assure timely issuance of reports. Section A8.02 (g) of GAS states that timely issuance of the report is an important reporting goal for auditors.

We extend our thanks to you and your staff for the hospitality and cooperation extended to us during our review. If you have any questions, please contact Jennifer Whitaker, Manager, or Rich Hebert, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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



State of California
Employment Training Panel

Edmund G. Brown Jr., Governor

June 17, 2011

David Botelho, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
300 Capital Mall, Suite 801
Sacramento, CA 95814

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, with the exception of two deficiencies, found ETP's Audit Unit to be in compliance with *Generally Accepted Government Auditing Standards (GAGAS)* for audit reports issued January 2008 through June 2010. We appreciate the report highlighted that the Audit Unit's standardized templates provide additional assurance that GAS standards are followed and also recognized ETP's continued diligence in obtaining its triennial peer review as required.

The report identifies two deficiencies regarding quality assurance and reporting compliance with GAS. Although we generally concur with these findings, we offer the following additional comments for background and clarity regarding the deficiencies discussed in the draft report:

Deficiency No. 1 – Chapter 3, General Standards, sections 3.53 – 3.54

The review stated in part that "Section 3.53-3.54 requires an audit organization to monitor its quality control system at least annually. The Audit Unit has not implemented an annual internal assessment of its Quality Control System."

ETP Response: ETP concurs that our Audit Unit's Procedures Manual has not been updated for this requirement. However, the unit does perform internal quality control procedures consistently and did conduct annual reviews of quality for the calendar years 2009 and 2010 in January 2010 and 2011, respectively. However, ETP concurs that it maintained inadequate documentation of that internal process and will immediately work to fully comply with these sections in the future.

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Deficiency No. 2 – Chapter 8, Reporting, sections 8.30 – 8.31

The review stated in part that "...section 8.30-8.31 requires an audit organization to use specific language in its reports to indicate whether an audit was conducted in compliance with GAS. The audit reports reviewed did not contain the required GAS language."

ETP Response: Although ETP concurs that the reports reviewed did not contain the specific language cited in 8.30, it should be noted that the audit work for 2 the 6 audits reviewed started prior to the effective date of the July 2007 GAS revision. Thus, these audits were not subject to the requirement cited in the draft report. ETP has already revised its standard report templates to add the specified language to correct this technical issue regarding audit report language and ensure complete compliance with GAS.

In addition, as noted in the draft report's Management Letter, ETP has corrected an issue with timeliness of its reports, as recommended in the 2008 peer review Management Letter. Currently, ETP is issuing audit reports in a timely manner after completion of audit fieldwork.

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 above, we have initiated immediate action to correct the two deficiencies identified in the review. Should you or your staff have any questions, please contact Stephen Runkle, Audit Manager at (916) 327-4758.

Sincerely,

Original signed by:

David Guzman
Chief, Audits, Fiscal & Program Operations

cc: Stephen Runkle, Audit Manager

EVALUATION OF RESPONSE

The Department of Finance (Finance) reviewed the Employment Training Panel's (ETP) June 17, 2011 response to our draft report and management letter. We concur with ETP's comment that reporting compliance with Government Auditing Standards (GAS) as required by GAS section 8.30 (2007 version) applies only to audits beginning on or after January 1, 2008. We have modified our report to reflect the effective date of the requirement. We commend ETP's efforts to promptly implement corrective actions for the deficiencies noted in our report.