



Transmitted via e-mail

November 7, 2014

Ms. Jill McAloon, Acting Executive Director  
Employment Training Panel  
1100 J Street, 4<sup>th</sup> Floor  
Sacramento, CA 95814-2826

Dear Ms. McAloon:

**Final Report—Employment Training Panel, External Peer Review**

The Department of Finance, Office of State Audits and Evaluations, has completed its external peer review of the Employment Training Panel's Audit Unit (Audit Unit).

The enclosed report is for your information and use. The Audit Unit's response to the report observations are incorporated into this final report. The Audit Unit agreed with our observations and we appreciate its willingness to implement corrective actions. The observations in our report are intended to assist management in improving the internal quality control system. This report will be placed on our website.

We appreciate the assistance and cooperation of the Audit Unit. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or Rick Cervantes, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Richard R. Sierra, CPA  
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Stewart Knox, Executive Director, Employment Training Panel  
Mr. Stephen Runkle, Audit Manager, Employment Training Panel



November 7, 2014

Ms. Jill McAloon, Acting Executive Director  
Employment Training Panel  
1100 J Street, 4<sup>th</sup> Floor  
Sacramento, CA 95814-2826

Dear Ms. McAloon:

We have completed a peer review of the Employment Training Panel's Audit Unit (Audit Unit) for the period July 2010 through April 2014. In conducting our review, we followed standards and guidelines contained in the *2011 Peer Review Guide* published 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. Our procedures included interviewing audit staff and management to assess their understanding of, and compliance with, relevant quality control policies and procedures. Additionally, we reviewed the following:

- Written policies and procedures
- Internal monitoring procedures
- Prior peer review report and corrective action plan
- Sample of audit workpapers
- Staff qualifications and training documentation

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.

Based on the results of our review, it is our opinion that, except for the deficiencies noted below, the Audit Unit's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with GAS for audit engagements completed during the period July 2010 through April 2014.

We offer the following observations and recommendations to assist the Audit Unit in achieving full compliance with GAS.

**OBSERVATION 1: Risk Assessment and Sufficiency of Evidence**

The audit workpapers reviewed did not include the following risk assessments or sufficiency of evidence assessments required by GAS sections 6.16, 6.24, 6.30, 6.31, and 6.58-6.69.

- Internal control design, implementation, and effectiveness.
- Information system control design and effectiveness when relying upon computer processed information.

- Fraud risks.
- Evaluation of the sufficiency of audit evidence, including computer processed information, to support the audit conclusions.

Implementing additional risk assessment procedures during the planning phase of the audit will enhance the effectiveness and efficiency of substantive audit procedures. Assessing the adequacy of the evidence, including computer processed information, at the conclusion of the audit will assist in determining whether the audit conclusions are fully supported or whether additional procedures or evidence are required.

**Recommendations:**

- A. Implement additional risk assessment procedures for internal control, fraud, and information systems.
- B. Implement procedures for evaluation of the sufficiency of evidence, including computer processed information, at the conclusion of the audit.
- C. Provide training to staff to ensure these procedures are consistently implemented and documented in the audit workpapers.

**OBSERVATION 2: Reports are Not Distributed to Employment Training Panel Members**

Audit reports issued during the review period were distributed to the Acting Executive Director and Chief Deputy Director, but not distributed to the eight Employment Training Panel (Panel) members. GAS, section 744.a, requires reports to be distributed to officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations, and to others authorized to receive such reports.

**Recommendation:**

- A. Distribute audit reports to the Panel members to ensure full compliance with reporting standards.

We prepared a separate letter that includes your Audit Unit's strengths and other less significant observations and suggestions for strengthening your quality control system.

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

Sincerely,

Original signed by:

Richard R. Sierra, CPA  
Chief, Office of State Audits and Evaluations



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November 7, 2014

Ms. Jill McAloon, Acting Executive Director  
Employment Training Panel  
1100 J Street, 4<sup>th</sup> Floor  
Sacramento, CA 95814-2826

Dear Ms. McAloon:

We have completed a peer review of the Employment Training Panel's Audit Unit (Audit Unit) for the period July 2010 through April 2014, and issued our report thereon dated October 3, 2014. We are issuing this companion letter to communicate the Audit Unit's strengths and other less significant observations and suggestions identified during our peer review.

The Audit Unit staff possess the technical knowledge, skills, and experience necessary to perform the audits. Additionally, the workpapers for substantive testing are detailed, accurate, and support the audit reports. Further, the Audit Unit continues to submit to rigorous peer reviews in an effort to maintain compliance with standards and enhance audit quality.

The previous peer review reported the following areas for improvement:

- Procedures manual was not updated for quality assurance and reporting.
- Annual quality control monitoring procedures were not implemented.
- Audit report language required revision for audits beginning on or after January 1, 2008.
- Report timeliness needed improvement.

The Audit Unit has implemented annual quality control monitoring procedures, updated its audit report language, and improved its report timeliness. Additionally, we offer the following suggestions to achieve full compliance with GAS, as follows:

1. The Audit Unit's procedures manual should be updated to include the following procedures required by GAS, section 3.85:
  - Leadership responsibilities for quality within the organization
  - Independence, legal, and ethical requirements
  - Initiation, acceptance, and continuation of audits
  - Monitoring of quality
2. To improve transparency, provide internet access to the Audit Unit's audit reports. GAS, section 7.05 requires audit organizations to make audit results available to the public unless the report is specifically limited

Ms. Jill McAloon  
November 7, 2014  
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We appreciate the assistance and cooperation extended to us during our review. If you have any questions, please contact Kimberly Tarvin, Manager, or Rick Cervantes, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Richard R. Sierra, CPA  
Chief, Office of State Audits and Evaluations

RESPONSE

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State of California

# Employment Training Panel

Edmund G. Brown Jr., Governor

October 14, 2014

Mr. Richard R. Sierra, CPA  
Chief, Office of State Audits and Evaluations  
Department of Finance  
915 L Street, 6<sup>th</sup> Floor  
Sacramento, CA 95814

Mr. Sierra:

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, Office of State Audits and Evaluations (OSAE). ETP recognizes the value of the peer review process. We are pleased that, with the exception of two Observations discussed below, your review found our audits compliant with *Generally Accepted Government Auditing Standards (GAGAS)* for reports issued July 2010 through April 2014.

We appreciate that your Draft Report recognized improvements made by the ETP Audit Unit based on the previous OASE review in 2011. It also noted the technical knowledge, skills, and experience of our audit staff; and, the detail and accuracy of our audit work papers.

However, the Draft Report included two Observations of deficiencies. We generally concur, and offer the following additional comments:

## Observation 1 – GAS sections 6.16, 6.24, 6.30, 6.31, and 6.58 – 6.69

This observation addresses the need for additional risk assessment procedures during audit planning in the areas of: internal control design, implementation and effectiveness, especially for computer-processed information; and, fraud detection. It also recommended an assessment of the evidence relied upon at the conclusion of the audit, to determine whether it is sufficient to support the findings.

**ETP Response:** ETP concurs that our internal processes can be strengthened. Currently, specific risk areas related to ETP Agreements, including the potential for fraud, are considered in preliminary audit work. As well, the adequacy of the evidence is evaluated before an ETP audit is concluded, and additional evidence is obtained as needed. However, we will work to enhance our procedures and work paper documentation consistent with this Observation.

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Mr. Richard R. Sierra, CPA  
Chief, Office of State Audits and Evaluations  
Department of Finance  
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**Observation 2 – GAS section 7.44.a**

The review recommends that ETP distribute its audit reports to members of the Employment Training Panel. This recognizes their role in overseeing policy for the ETP program.

**ETP Response:** ETP concurs, and will develop an appropriate process to distribute audit reports to the Employment Training Panel members as an information item.

In addition, we appreciate the “management” suggestions for internal process improvement, referencing GAGAS Sections 3.85 and 7.05. Our Audit Unit intends to update its procedure manual to include internal monitoring and other aspects of self-assessment consistent with Section 3.85. Our audit reports will continue to be available to the public through Public Record Act requests, consistent with Section 7.05.

We appreciate the thorough manner in which your staff conducted the peer review, and their professional attitude in sharing best practices with our staff. As noted above, we will initiate action to address the Observations. Should you or your staff have any questions, please contact Stephen Runkle, Audit Manager at (916) 327-4758.

Sincerely,

*Original signed by:*

Jill McAloon  
Chief Deputy Director/Executive Director (Acting)

cc: Stephen Runkle, Audit Manager