December 22, 2017

MEMORANDUM FOR:  Linda Cruz-Carnall  
Regional Director  
Economic Development Administration

FROM:  Andrew Katsaros  
Assistant Inspector General for Audit and Evaluation


Attached is the quality control review (QCR) of the audit of Albany County Business Development Corporation as of and for the year ended December 31, 2015, performed by T.M. Byxbee Company, CPAs, NY, P.C. (T.M. Byxbee). McBride, Lock & Associates, LLC, performed this QCR on our behalf to determine whether the subject report complied with the reporting requirements of the Single Audit Act of 1984, as amended in 1996. The QCR was performed using generally accepted auditing standards published by the American Institute of Certified Public Accountants and generally accepted government auditing standards issued by the U.S. Government Accountability Office. Please see the attached review for further details on the audit’s scope and methodology.

The QCR identified several deficiencies related to the workpaper documentation, including lack of support for audit conclusions, and a missing note for 10 percent de minimus indirect cost from the report. T.M. Byxbee’s management reviewed the QCR and provided responses to McBride, Lock & Associates, LLC for each of the deficiencies identified in the report. In general, T.M. Byxbee agreed with the QCR’s findings, noting that it has modified its system of quality control policies and procedures to remedy these deficiencies.


Please direct any inquiries regarding this report to me at (202) 482-7859 or Belinda Riley at (404) 730-2067.

Attachment
QUALITY CONTROL REVIEW
Of
T.M. BYXBEE COMPANY, CPAs, NY, P.C.

On the Audit of
Albany County Business Development Corporation
for the year ended December 31, 2015
QUALITY CONTROL REVIEW
Of
T.M. BYXBEE COMPANY, CPAs, NY, P.C.

On the Audit of
Albany County Business Development Corporation
for the year ended December 31, 2015
Mr. Glenn R. Winter, CPA  
T.M. Byxbee Company, CPAs, NY, P.C.  
18 Computer Drive East, Suite 101  
Albany, New York 12205-1290

Subject: Quality Control Review of the Albany County Business Development Corporation  
for the year ended December 31, 2015

Dear Mr. Winter,

The purpose of this letter is to confirm discussions with you on July 6, 2017 regarding the major  
issues identified during our quality control review. Our Quality Control Review (QCR) was  
performed on of the audit of Albany County Business Development Corporation as of and for the  
year ended December 31, 2015 performed by T.M. Byxbee Company, CPAs, NY, P.C. in  
accordance with generally accepted auditing standards published by the American Institute of  
Certified Public Accountants and generally accepted government auditing standards issued by the  
Government Accountability Office.

Scope of Services

The objective of our review was to perform a QCR:

1. To determine whether the financial statement audit work, compliance audit work, and the  
associated review of internal controls over both financial reporting and compliance were  
conducted in accordance with applicable standards, including GAGAS and the published  
guidance of the OIG, the American Institute of Certified Public Accountants standards as  
well as Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative  
Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform  
Guidance) and including its Compliance Supplement.

2. To identify any issues that may require additional attention or any additional audit work by  
the Independent Public Accountant who performed the audit.
Methodology

We performed our review using the Guide for Quality Control Reviews of Single Audits (the "Guide") issued by the Council of Inspectors General on Integrity and Efficiency (2016 Edition). In performing the review we met with the engagement partner and obtained supporting audit workpapers. Prior to initiating efforts, the Commerce-OIG provided the audit report to be reviewed and any additional information in its possession about the audit work to be reviewed to the extent that it believed the information may affect the QCR.

Overview of Procedures Performed and Related Findings

We reviewed the audit report issued on Albany County Business Development Corporation as of and for the year ended December 31, 2015. We reviewed the audit report, using the Guide, to ensure that it included and met the requirements of Government Auditing Standards, the standards for financial audits issued by the AICPA, and Uniform Guidance. We reviewed the audit workpapers using the Guide and the evidence documented in the audit workpapers. In each area, we evaluated whether or not the testing performed, results documented, financial statements presented, and findings reported were consistent with and supported the independent accountants report identified in the first paragraph of this report.

Results

Efforts in Response to Compliance Supplement

The auditor performed testing of loan files in response to the direct and material requirements for CFDA 11.307 Economic Development Assistance. In addition the auditor obtained financial information related to the loan activity including collections and loan balances outstanding.

The Compliance Supplement for CFDA 11.307 indicates that following compliance requirements are applicable:

- Activities allowed and unallowed
- Allowable costs
- Cash management
- Equipment and real property management
- Matching, level of effort and earmarking
- Period of performance
- Reporting
- Special tests and provisions

The auditor obtained the Compliance Supplement Part 4 for this CFDA number and provided sign-off and referencing for the efforts performed. The auditor did not include Part 3 of the Compliance Supplement, which specifically, includes efforts necessary for Allowable Costs and other general aspects of the compliance requirements noted above. The auditor’s efforts included an internal...
control checklist for financial operations of the organization. However, there was no internal control checklist or other understanding of internal control documented for the direct and material compliance requirements of the major program (CFDA 11.307) or the assessment of risk for those control processes. As a result, for most of the compliance testing it could not be fully determined that the test provided the necessary efforts to support the audit opinion.

The auditor, during this review, demonstrated through verbal communications an appropriate understanding of the organization of the requirements, but these understandings were not adequately documented in the workpapers. Specifically as it pertains to the direct and material compliance requirements of the major program, the following deficiencies were noted:

- Activities allowed and unallowed- internal control understanding and assessment of risk was not documented. In addition, it is not clear that the test efforts performed were associated with items which may be applicable to the Revolving Loan activity. Many of the compliance supplement items are not applicable to this grant. Some of these are clearly not applicable but the veracity of the other items as not applicable should be documented as to why that test item would not have applicability for this grant or for this grant at this stage of its existence. Specifically:
  - Items 1 a,c,e and f were noted as not applicable by the auditor. However, the workpapers do not provide specific notation as to the reason or support for that judgment. In reviewing the grant document and activity, it is likely that this judgment is appropriate.
  - Item 1b is noted with a checkmark by the auditor. It could not be determined as to what that notation was intended to assure.
  - Item 1d was not noted with any reference or other indication by the auditor. In response to the reviewer inquiry, the auditor made reference to C1.1 and the Loan Proceeds Directive attribute. However it is unclear, without additional explanation as to what efforts were performed to satisfy this compliance requirement. In addition, there is some question as to whether this test design would be able to detect potential exceptions in the auditee activity.
  - Items 2 a-f had highlighting of the items. On workpaper GF8, the auditor noted in response to Activities Allowed and Unallowed that “The only activity of the organization is a revolving loan fund”. In response to an inquiry, the auditor again referenced C1.1 Loan Proceeds Directive attribute. However it is unclear, without additional explanation, as to what efforts were performed to satisfy this compliance requirement. In addition, there is some question as to whether this test design, would be able to detect potential exceptions in the auditee activity.

- Allowable Costs- As previously noted, the auditor did not include Part 3 of the Compliance Supplement in the workpapers and therefore no efforts pertaining to internal control understanding, assessment of risk or testing of those controls are referenced from that document. The auditor's workpapers include a test of the Chamber's voucher for the fourth quarter and the auditor noted that the “quarterly voucher was traced to Board minutes. Also reviewed allocations of Chamber expenses and compared to budget”. The auditor continues that the “expenses are necessary, reasonable and allowable”. However, since it is unclear
from the workpapers the relationship with the Chamber or how the expenses were to be
paid to the Chamber, any determination of the adequacy of this test could not be made.

- Cash Management- The auditor provides no response to the Compliance Supplement. WP
  GF8 indicates that cash is monitored by the Board and sequestered funds are maintained.
The support for this conclusion is not immediately evident in the workpapers.

- Matching- There is no response to this Compliance Supplement step in the workpapers. In
  response to the reviewer inquiry, the auditor provided the grant award. The grant award
does not appear to have a matching requirement. The workpapers should provide positive
assurance of this item in the workpapers.

- Period of Performance- The workpapers do not provide the dates needed to validate this
  compliance requirement. In response to the reviewer inquiry, the auditor responded that
  this is tested on C1.1 Loan Proceeds Directive attribute and the overall review of the loan
documentation. But the auditor agreed that there is no specific documentation contained in
our workpapers of the dates validating this compliance requirement.

- Reporting- The Compliance Supplement notes several reports that are required to be
  submitted. These included SF-270, SF-425, ED-209 and ED-209i. The auditor, in response
  to the review inquiry as to whether the auditor reviewed the reports for accuracy and timely
  position referred to the FS PREP WPS. These workpapers could be supportive of the
Federal reports submitted but specific assurance noted on the reports filed and a
reconciliation to the FS PREP WPS was not evident. The FS PREP WPS were also noted
as PBC (Prepared by Client).

- Special Tests and Provisions- GF8, the auditor’s compliance requirements memo notes that
special tests and provisions are N/A. However the compliance supplement does include
some sign off of various aspects of the agreement. Consistent with the previously noted
items, the necessary internal control understanding and assessment was not present.
Therefore the adequacy of the efforts performed to support the auditor’s opinion could not
be assured. Specifically:
  - Item 1b- Ascertain that RLF income was not used for administrative expenses. In
    response to the reviewer’s inquiry as where the auditor performed this effort, the
    auditor referred to the FS PREP WPS. Page 4 of this workpaper could result in
    support for the audit opinion, however, addition discussion, disclosure and support
    in the workpapers would be beneficial to support this schedule to support the
    conclusion.
  - Item 1c- Ascertain if all funds arising from repayments of principal of RLF loans
    were made available for re-lending. In response to this inquiry, the auditor again
    refers to FS PREP WPS. These workpapers could provide the necessary support for
    the compliance supplement requirement. However additional discussion, disclosure
    and test efforts on these workpapers would clarify the efforts performed to support
    the auditor’s opinion. Included within that support would also be the internal
    control understanding and assessment.
  - Item 1d- Verify that any “excess funds” have been sequestered as required, and that
    the recipient if properly accounting for the Federal share for the interest accruing
    on these funds. The General Ledger copied in the workpapers include an account
    for sequestered interest. However additional discussion, disclosure and test efforts
    on these workpapers would clarify the efforts performed to support the auditor’s
Audit Efforts for Financial Audit Areas

The auditor’s efforts for general auditing and completion procedures lacked support for the audit conclusions. Specifically,

- Commitments and Contingencies- The auditor noted in the audit program as NN (None Noted). It is not evident as to the efforts performed to reach this conclusion.
- Significant Estimates- The auditor initialed and dated audit steps, but provided no reference to any workpaper support.
- Subsequent events- The auditor initialed audit steps, but provided no reference to any workpaper support.

The audit efforts were not available to support the basis for the auditor’s conclusion for these areas.

SEFA Footnote

The SEFA footnotes do not include a statement as to whether the 10% de minimus for indirect costs was considered. This note is required by Uniform Guidance.
Control Activity Forms

The auditor completed internal control checklists for the principal financial statement categories such as cash. The checklists noted certain internal control matters for cash receipting and bank reconciliation issues which could be areas of internal control weakness. It was not evident how the auditor mitigated these concerns through additional analysis or additional testwork. The auditor did not otherwise disclose of these matters in a management letter or in the audit report as a significant deficiency.

Based upon our review, we believe that the audit currently meets the standards set forth by generally accepted auditing standards, Government Auditing Standards and the requirements of Uniform Guidance and its Compliance Supplement, except as noted.

We request that you respond to the issues discussed above by August 4, 2017. Your response should include any comments relevant to the issues, as well as plans to correct the deficiencies noted for this audit. We will include your response to this communication along with our conclusion as the final report to the Department of Commerce Office of Inspector General.

Very truly yours,

McBride, Lock & Associates, LLC
RESPONSE BY CPA
August 2, 2017

McBride, Lock & Associates, LLC
1111 Main Street, Suite 900
Kansas City, Mo 64105

This letter represents our response to the report issued in connection with the Quality Control Review of the Albany County Business Development Corporation for the year ended December 31, 2015. The discussions in this letter will be monitored to ensure that they are effectively implemented as part of our system of quality control.

As noted in the report, it was demonstrated by our firm that an appropriate understanding of the audited Organization and the Government Audit Requirements is in place. We understand as a result of this process and report, that more extensive documentation is necessary to allow the audit work papers to adequately stand on their own. In many instances with regard to the specific items of activities, costs, and testing as pointed out in the report, our knowledge of the Organization allowed us to confidently indicate “not applicable” as the appropriate response in the workapers or checklists, and we believed this to be sufficient documentation. We now understand that specific positive statements and/or discussion of these items is required to fully document our conclusions.

As also noted in the report, indirect documentation existed in our files for many items discussed in the report (ex: client reports, grant award letter, general ledger), however we now understand that clear documentation of how these items were used to form specific conclusions is necessary.

Specifically, regarding Report Results:

Efforts in Response to Compliance Supplement

Activities allowed and unallowed

• Items 1a,c,d,e – The conclusion based on these efforts will be better documented in our workpapers for current and future audits.
• Item 1b – This step should have also been indicated as not applicable. The conclusion based on this effort will be better documented in our workpapers for current and future audits.
• Items 2a-f – The attributes of the testing performed and the conclusion based on these efforts will be better documented in our workpapers for current and future audits.

Allowable Costs/Cash Management/Matching/Period of Performance

• The conclusions based on these efforts will be better documented in our workpapers for current and future audits.
Reporting

- The conclusion based on these efforts will be better documented in our workpapers for current and future audits. We will include copies of the reports submitted by the client as part of our work papers, and will fully document the reconciliation to the FS PREP WP.

Special Tests and Provision

- Items 1b-d – The conclusion based on these efforts will be better documented in our workpapers for current and future audits.
- Items 2a-f, 4 – The attributes of the testing performed and the conclusion based on these efforts will be better documented in our workpapers for current and future audits.

Audit Efforts for Financial Audit Areas

- Based on discussions with management, staff and members of the Board and the review of minutes of the Board through the date of issuance of the audit report regarding commitments and contingencies, significant estimates and subsequent events, we did not note issues to disclose. The conclusion based on these efforts will be better documented in our workpapers for current and future audits.

SEFA Footnote

- The SEFA footnotes did not include a statement as to whether the 10% de minimis rate for indirect costs were considered as required by Uniform Guidance. This oversight will be corrected for current and future audits.

Control Activity Forms

- The cash receipting and bank reconciliation issues were mitigated through additional discussions with the client. We therefore did not believe these matters needed to be disclosed in a management letter or in the audit report as a significant deficiency. We have increased our level of documentation to indicate this.

Overall Response to the Quality Control Review

Our firm modified its system of quality control policies and procedures to require the utilization of all third-party practice aids relevant to the preparation of its specialized industry audit engagements, including the tailoring of such practice aids to the specialized industries in which the firm practices, when appropriate. We have allocated additional time to our engagements in order to comply with the documentation requirements of professional standards.
We are in the process of conducting a training session for all applicable personnel to emphasize the importance of the proper utilization of the third-party practice aids applicable to the firm’s specialized industry engagements.

Finally, we will engage a qualified independent third party to conduct a pre-issuance review of our next audit subject to *Government Auditing Standards*, if any.

These remedial actions will also be emphasized in our monitoring procedures and internal inspection.

We believe these actions are responsive to the findings in the report.

Sincerely,

Glenn R. Winter, CPA
T.M. Bxybee Company, CPAs, NY, P.C.
CONCLUSION
Conclusion

The conclusion is based on our review of the auditor’s workpapers provided, the exit conference held on July 6, 2017 and the auditor’s response.

Efforts in Response to Compliance Supplement

The auditor concurs that improvement to documentation of processes and support for areas not deemed applicable are necessary. The auditor has indicated that training for these processes will be done and that improved documentation will be made on this current effort and on future efforts. This action is appropriate to resolve the concern.

No modification is made to this finding as initially stated.

Audit Efforts for Financial Audit Areas

The auditor believes that the issue was mitigated through discussion with Board, review of minutes and subsequent event analysis and there were no issues to disclose. The auditor concurs that better documentation will be made in current and future workpapers. This action is appropriate to resolve the concern.

No modification is made to this finding as initially stated.

SEFA Footnote

The auditor concurs that this was an omission and has agreed to correct this footnote on this and future audits.

No modification is made to this finding as initially stated.

Control Activity Forms

The auditor indicates that these items were mitigated through additional discussions with the client. The response indicates that such matters will be better documented in current and future efforts. This action is appropriate.

No modification is made to this finding as initially stated.

Conclusion

We conclude that the audit of the Albany County Business Development Corporation for the year ended December 31, 2015 met the standards set forth by generally accepted auditing standards, Government Auditing Standards, and the requirements of Uniform Guidance, except as noted.