



December 22, 2017

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

A handwritten signature in black ink, appearing to read "Andrew Katsaros".

**FROM:** Andrew Katsaros  
Assistant Inspector General for Audit and Evaluation

**SUBJECT:** Quality Control Review of T.M. Byxbee for the Period Ended  
December 31, 2015

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.

This memorandum, as well as the McBride, Lock & Associates, LLC, review, will appear on the Office of Inspector General website pursuant to section 8M of the Inspector General Act of 1978, as amended (5 U.S.C. App., §§ 8M).

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**

**McBRIDE, LOCK & ASSOCIATES, LLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**KANSAS CITY**

**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**

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MCBRIDE, LOCK & ASSOCIATES, LLC

July 6, 2017

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, additional 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 is 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

- opinion. Included within that support would also be the internal control understanding and assessment.
- Item 2a- Loan application. The auditor stated in response to the reviewer's inquiry that this was tested on C1.1 as the attribute entitled "Board Resolution/Consent of Shareholders". Enhancement of the attribute definition on the C1.1 workpaper would benefit this test to ensure that it is responsive to the compliance supplement requirement.
- Items 2a- Loan agreement. The auditor stated in response to the reviewer's inquiry that this was tested on C1.1 as the "Signed Promissory Note" attribute. Enhancement of the attribute definition on the C1.1 workpaper would benefit this test to ensure that it is responsive to the compliance supplement requirement.
- Item 2a- Deed of trust of mortgage- The auditor responded to the reviewer's inquiry by stating that this was not applicable for loans tested. A positive statement that this was not applicable would be beneficial.
- Item 2a- Agreement of prior lien holder- The auditor responded to the reviewer's inquiry by stating that this was not applicable for loans tested. A positive statement that this was not applicable would be beneficial.
- Item 2b- An RLF recipient must make loans to implement and assist economic activity only within its EDA-approved lending areas. The auditor indicated, in response to the reviewer's inquiry, that this was tested on C1.1 in the "Affirmative Action Plan" and "Loan Proceeds Directive" attributes. Enhancement of the attribute definition on the C1.1 workpaper would benefit this test to ensure that it is responsive to the compliance supplement requirement.
- Item 4- Loan Portfolio Sales and Securitizations. The auditor, in response to the auditor's inquiry, indicated that this was NA but there is no positive assurance of this.

#### 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.



Mr. Glenn R. Winter, CPA  
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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 workpapers 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,

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

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.