



December 3, 2021

Scott Hunsaker, CPA
Mahlke Hunsaker & Company, PLLC
201 Canyon Drive, Suite 100
Twin Falls, Idaho 83301

Dear Mr. Hunsaker:

The Office of Inspector General is committed to improving the quality of non-federal audits. In accordance with our responsibilities for audit work performed by non-federal auditors on federal programs, attached is the quality control review (QCR) of the audit of Region IV Development Association, Inc., as of and for the year ended September 30, 2019. The single audit was performed by your firm, Mahlke Hunsaker & Company, PLLC. On our behalf, McBride, Lock & Associates, LLC, performed this QCR to ensure that the audit was conducted in accordance with generally accepted auditing standards (GAAS), *Generally Accepted Government Auditing Standards (GAGAS)*, the requirements of federal regulations at Title 2 C.F.R. Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* including its Compliance Supplement.

Please see the enclosed review performed by McBride, Lock & Associates, LLC, for further details on the QCR's scope and methodology.

Firms can receive a QCR rating of *pass*, *pass with deficiency(ies)*, or *fail*. McBride, Lock & Associates, LLC, provided the QCR draft report dated April 13, 2021, for the audit for the year ended September 30, 2019. Upon consideration of your response to the draft report, McBride, Lock & Associates, LLC, recommended a QCR rating of a *pass with deficiencies*. An audit with a QCR rating of *pass with deficiencies* is an audit for which the audit documentation contains quality deficiencies that should be brought to the attention of the auditor (and auditee, where appropriate) for correction in future audits.

In our opinion—based on the review of McBride, Lock & Associates, LLC, audit report, discussions with them, the related audit documentation, and your firm's written comments on the QCR draft report—the QCR rating of the audit for the year ended September 30, 2019, is a *pass with deficiencies*. A copy of your firm's written comments appears as the appendix to the enclosed QCR.

Your firm should evaluate the audit documentation related to the deficiencies detailed in the enclosed schedule to identify any additional audit procedures needed to ensure that the audit documentation meets GAAS, GAGAS, the requirements of *Uniform Guidance*, and the Compliance Supplement. If additional audit work is deemed to be necessary to support the opinions contained in the audit, your firm should follow the provisions of AU-C § 585 and AU-C § 935.43 with respect to reissuance of the audit.

We are sending this letter and the accompanying McBride, Lock & Associates, LLC, QCR to officials at the other federal agencies with direct expenditures listed on the Schedule of Expenditures of Federal Awards to inform them of the results of this review.

This letter—as well as the McBride, Lock & Associates, LLC, QCR—will be posted on the Office of Inspector General’s website pursuant to section 8M of the Inspector General Act of 1978, as amended (5 U.S.C. App., § 8M).

We appreciate the cooperation and courtesies your staff extended to McBride, Lock and Associates, LLC, during the QCR. Please direct any inquiries regarding this report to me at (202) 482-2877 or Belinda Riley, Supervisory Auditor, at (202) 527-0544.

Sincerely,



Richard Bachman
Assistant Inspector General for Audit and Evaluation

Enclosure

cc: Jeff McCurdy, President, Region IV Development Association, Inc.
Robert Lock, Partner, McBride, Lock & Associates, LLC
Marbie Baugh, National Single Audit Coordinator, U.S. Department of Agriculture OIG
Barry Berkowitz, Senior Procurement Executive and Director of the Office of Acquisition Management, Department of Commerce
John Geisen, Director, Financial Assistance Policy and Oversight Division, Department of Commerce
Maiea Sellers, Area Director, Seattle Regional Office, EDA
Deborah Haynes, Audit Liaison, EDA
MaryAnn Mausser, Audit Liaison, Office of the Secretary
Rehana Mwalimu, Risk Management Officer and Primary Alternate Department GAO/OIG Liaison, Office of the Secretary

**QUALITY CONTROL REVIEW
OF
MAHLKE, HUNSAKER & COMPANY, PLC**

**On the Audit of
Region IV Development Association, Inc.
for the year ended September 30, 2019**

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McBRIDE, LOCK & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS

April 13, 2021

Mr. Scott Hunsaker
Mahlke, Hunsaker & Company, PLC
201 Canyon Drive, Suite 100
Twin Falls, Idaho 83301

Subject: Quality Control Review of the Region IV Development Association, Inc.

Dear Mr. Hunsaker,

We are pleased to submit the report of our Quality Control Review (QCR) of the audit of Region IV Development Association, Inc. as of and for the year ended September 30, 2019 performed by Mahlke Hunsaker & Company PLLC 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) as adapted to consider the guidance required for the Uniform Guidance. In performing the review we met with the engagement partner and obtained supporting audit workpapers. Prior to initiating efforts, the DOC-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 Region IV Development Association, Inc. as of and for the year ended September 30, 2019. We reviewed the audit report, using the Guide, to ensure that it included and met the requirements of Government Auditing Standards and the standards for financial audits issued by the AICPA. 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

Data Collection Form

The Data Collection Form (DCF) submitted included an error on Part II: Federal Awards column i-k “Loan Programs”. The loan balance for CFDA 11.307 Economic Adjustment Assistance was reported as “N/A” for End of Audit Period Balance on the DCF. Per the SEFA footnote, the loan balance was \$2,601,899. The loan balance for CFDA 10.767 Intermediary Relending Program was reported as \$264,168 as the End of Audit Period Balance on the DCF. Per the SEFA footnote this amount was reported as \$465,609. The auditor stated that he used an amount that was a loan obligation to USDA (See Note I to the Financial Statements).

Audit Workpapers

The audit workpapers generally lacked appropriate content to determine the purpose, source, scope or conclusions on the efforts performed. The audit did provide for audit preparation in the form of analytical procedures, independence evaluation, materiality, general planning procedures, risk assessments, audit program development, internal control review. However, the workpapers related to cash, receivables, property and revenues lacked development that would allow for an experienced auditor to understand the nature of the efforts performed and the conclusions reached. Additionally, audit samples selected by the auditor lacked sampling plans, attributes or conclusions.

AU-C 230.08 and .09 state:

- **.08** The auditor should prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit to understand:
 - a. the nature, timing, and extent of the audit procedures performed to comply with GAAS and applicable legal and regulatory requirements;
 - b. the results of the audit procedures performed, and the audit evidence obtained; and
 - c. significant findings or issues arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
- **.09** In documenting the nature, timing, and extent of audit procedures performed, the auditor should record
 - a. the identifying characteristics of the specific items or matters tested;
 - b. who performed the audit work and the date such work was completed; and
 - c. who reviewed the audit work performed and the date and extent of such review.

A determination could not be fully made as to the adequacy of the audit efforts to fully support the auditor's conclusions and audit opinion.

Entity Prepared Financial Statements

The audit workpapers did not include financial statements prepared by the entity. Upon request the auditor provided a grouping worksheet which provided support for the amounts reported in the audit report. The evidential matter provided did not provide indication that the audited entity prepared the financial statements or footnotes to the financial statements. AU-C 200.05 states "The financial statements subject to audit are those of the entity, prepared and presented by management of the entity with oversight from those charged with governance." It is not clear from the workpapers there was assurance from management regarding the acceptance of the financial statements. Lacking that assurance from management, the audit lacks adequate mitigation to the threat to independence since the auditor effectively prepared and approved the financial statements.

Testing of Expenditures Related to Use of Program Income

The audit workpapers include a payroll test and a cash disbursement test. Program income from the RLF program can be used to fund the operations of the entity. The auditor conveyed in response to quality review inquiry that the payroll and cash disbursement tests were performed to ensure that the disbursement of program income was in compliance with grant requirements. However, these tests do not include an attribute that the expenditure was made in compliance with that requirement.

These matters were discussed with the engagement partner on April 13, 2021.

Based upon our review, the overall rating assigned to the auditor's work is Pass with Deficiencies.

Mr. Scott Hunsaker
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This report is intended solely for the Department of Commerce Office of Inspector General.

Very truly yours,



McBride, Lock & Associates, LLC

RESPONSE BY CPA



Mahlke Hunsaker & Company PLLC

C e r t i f i e d P u b l i c A c c o u n t a n t s

July 12, 2021

McBride, Lock & Associates, LLC
4151 N. Mulberry Drive, Suite 275
Kansas City, Missouri 64116

Dear Mr. Lock,

This letter is in response to your letter dated April 13, 2021 and in connection with the Quality Control Review of the Region IV Development Association, Inc.

After reviewing your comments, the following are responses to your results.

Part of the issue with several of the results and findings noted in the letter can be attributed to the method used to review or send the workpapers for review. We use a web based system for our workpapers, audit programs and financial statements. We saved the requested documents to pdf files and sent them in. This method loses the structure the workpapers are saved in and much of the logic and flow of the audit is lost with this method. Doing the work remotely I am not sure there is a viable option but it should be noted there are inherent limitations with the method used.

Data Collection Form

We concede the data collection form was completed incorrectly a box was checked incorrectly. This was an inadvertent error in the complete of the data collection form.

Audit Workpapers

As discussed previously, many of the workpapers were taken out of context. The audit programs were referenced with procedures performed, who performed those procedures and when they were complete. Procedures were carefully followed and documented. The standard (AU-C 230.08 and .09) uses the term "audit documentation". From our reading it does not say that "audit documentation" is each individual workpaper or document. Our interpretation is "audit documentation" should include the audit programs where nature, timing and extent of audit procedures are documented.

Entity Prepared Financial Statements

Per the Engagement Letter it was agreed to that our firm would assist in the preparation of the financial statements. The entity prepares monthly financials for their board of directors and their accounting personnel have the Knowledge, Skills and Experience necessary to prepare financial statements if it were necessary. For convenience, our firm prepares the financial statements from their accounting records and financial statements they prepare. The client carefully reviews (Accounting personnel and their Finance Committee) the financial statements and approves any adjustments to their financial statements.

Testing of Expenditures Related to Use of Program Income

Two months of employee timecards were haphazardly selected for testing. The test performed determined if those costs were correctly allocated to the correct "cost center".

We appreciate the opportunity to respond to your results and disagree that the audit does not meet the standards set forth by generally accepted auditing standards, Government Auditing Standards and the requirements of Uniform Guidance and its Compliance Supplement.

Sincerely,



Scott E. Hunsaker, CPA

CONCLUSION

Conclusion

The conclusion is based on our review of the auditor's workpapers provided, the exit conference held on April 13, 2021 and the auditor's response.

Data Collection Form

The auditor concurs with the finding. No modification is made to this finding as initially stated.

Audit Workpapers

The auditor points out limitations of the remote review of the workpapers in determining the overall context of the evidential matter. The review of individual workpapers to ensure the purpose, scope and conclusions could not be determined in general. This issue limited the reviewer from obtaining support from the audit workpapers to support the audit report as a whole. No modification is made to this finding as initially stated.

Entity Prepared Financial Statements

The audit response provides additional clarity of the financial statement preparation and responsibility taken by the audited entity. This clarification is beneficial and improved documentation of this in the auditor's assurances regarding preparation of the financials, the skills, knowledge and experience component, and the independence considerations within the workpapers would assist in resolution of this concern.

No modification is made to this finding as initially stated.

Testing of Expenditures Related to Use of Program Income

The response does not provide additional clarity in the testing performed as it relates to program income uses. No modification is made to this finding as initially stated.