



January 10, 2022

John D. Morrow, CPA
P.O. Box 400
109 Main Street
Wall Lake, Iowa 51466

Dear Mr. Morrow:

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 XII Development Corporation, Inc., as of and for the year ended June 30, 2019. The single audit was performed by your firm, John D. Morrow, CPA. 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 March 14, 2021, for the audit for the year ended June 30, 2019. Upon consideration of your response to the draft report, McBride, Lock & Associates, LLC, recommended a *fail* QCR rating. An audit with a QCR rating of *fail* is an audit for which the audit documentation either contains quality deficiencies that affect the reliability of the audit results, does not support the opinions contained in the audit report, or both, and which requires correction for the audit under review.

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 June 30, 2019, is a *fail*. 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, and the requirements of *Uniform Guidance*, including its 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 *AICPA Professional Standards' Statement on Auditing Standards in 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. Additionally, our policy is to make referrals to the appropriate professional association when a review of the audit work as originally submitted results in a QCR rating of *fail*. Accordingly, we are referring the audit to the Professional Ethics Division of the American Institute of Certified Public Accountants for review and appropriate action. Your written comments on the QCR draft report will be forwarded in their entirety to the American Institute of Certified Public Accountants.

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: Mark Thomsen, Fiscal Officer, Region XII Development Corporation, Inc.
Robert Lock, 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
Angela Belden Martinez, Denver Office Regional Director, 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
Professional Ethics Division of the American Institute of Certified Public Accountants

**QUALITY CONTROL REVIEW
OF
JOHN D. MORROW
CERTIFIED PUBLIC ACCOUNTANT**

**On the Audit of
Region XII Development Corporation, Inc.
for the year ended June 30, 2019**

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McBRIDE, LOCK & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS

March 14, 2021

Mr. John D. Morrow
P.O. Box 400
109 Main Street
Well Lake, Iowa 51466

Subject: Quality Control Review of the Region XII Development Corporation, Inc.

Dear Mr. Morrow,

We are pleased to submit the report of our Quality Control Review (QCR) of the audit of Region XII Development Corporation, Inc. as of and for the year ended June 30, 2019 performed by John D. Morrow Certified Public Accountant 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 XII Development Corporation, Inc. as of and for the year ended June 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

Auditor Signature not on Reports

None of the three auditor’s reports were signed by the auditor. The auditor’s reports include letterhead and the date of the report. The auditor, in response, stated that he controls the distribution of the reports by not signing the report until a specific request is made. He indicated that the organization would have received originally signed reports. However, other issuances of the report, including the report to the Clearinghouse, were not signed. AU-C 700.41 states “The auditor’s report should include the manual or printed signature of the auditor’s firm.”

Audited Financial Statements not in accordance with Generally Accepted Accounting Principles

The auditor’s report states that “the financial statements referred to above present fairly in all material respects, the financial position...and the results of its changes in net assets and cash flows ...in accordance with the accounting principles generally accepted in the United States of America.” One of the expenses reported on the Statement of Activities is Participant Loans in the amount of \$340,000. Note 7 to the Financial Statements states that Loans and grants paid to business enterprises are treated as expenses at the time the loan is made to accommodate the required reporting format on quarterly reports. These disclosures would indicate that the financial statements are prepared on a basis inconsistent with generally accepted accounting principles. The auditor’s opinion is therefore inappropriate. A supplemental schedule should be considered to provide a grant basis presentation which could also provide a bridge to GAAP basis financials.

Schedule of Expenditure of Federal Awards (SEFA)

The SEFA did not include the required footnote on the disclosure of expenditures for the loan program. Per the Compliance Supplement for the Economic Development Cluster (CFDA 11.307) Other Information for the Schedule of Expenditure of Federal Awards it states “For purposes of completing the Schedule of Expenditure of Federal Awards (SEFA), each EDA RLF grant (CFDA 11.307) must be shown as a separate line item calculated as follows:

1. Balance of RLF principal outstanding on loans at the end of the recipient’s fiscal year, plus
2. Cash and investment balance in the RLF at the end of the recipient’s fiscal year, plus
3. Administrative expenses paid out of RLF income during the recipient’s fiscal year; plus
4. The unpaid principal of all loans written off during the recipient’s fiscal year.
5. Multiply this sum by the Federal share of the RLF. The Federal share is defined as the Federal participation rate (or the Federal grant rate) as specified in the grant award.”

This disclosure was not made in the schedule or the accompanying footnotes to the SEFA.

Inadequate Support of Audited Amounts

The audit reports a Cash and Cash Equivalents amount of \$1,449,824. Workpaper A has a reconciled cash balance of \$3,202,727 of which \$560,291 was identified as Region XII Development Corporation funds. The auditor, in response to this concern, stated that there are three related organizations and the balance reflected in this report is the portion related to Region XII Development Corporation only.

The Statement of Activities in the audit report is not supported with any workpapers. The workpapers include the General Ledger for the various funds and a cash disbursement effort. The audit efforts to support the audit report are inadequate.

AU-C 212.06 states “As the basis for the auditor’s opinion, GAAS require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.” AU-C 212.14 defines audit evidence as “Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information. *Sufficiency of audit evidence* is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence. *Appropriateness of audit evidence* is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.

The auditor could not provide evidence other than an internal control analysis, risk assessment and cash disbursement test to support any audit efforts for the propriety of the amounts reported on the Statement of Activities. The auditor believes there might be a missing section of the workpapers.

Single Audit Efforts

The audit provided a cash disbursement test for Compliance Supplement Requirements. Eight of the items on the cash disbursement test were stated as being tested for compliance supplement requirement attributes. These attributes include:

- A – Activities Allowed
- B – Allowable Costs
- C – Cash Management
- H – Period of Performance, and
- I– Procurement

A cash disbursement test does not have an appropriate design to ensure that these compliance requirements are met. For instance, a cash disbursement test may select a transaction for supplies. While the controls and processes may indicate that this is an allowable type of cost, it would not ensure the propriety of activity for which it was used. The cash management aspects of the purchase, the procurement process or the period of performance could not be ensured through this testing process. While allowable costs can be reviewed in this manner, the other requirements noted cannot be ensured for a revolving loan fund using a cash disbursement test.

The remainder of the audit efforts pertaining to the audit of CFDA 11.307 is a sample of a single loan. The audit workpapers indicated approximately \$1.5 million in loan balances. The test did not include a review for requirements in the Compliance Supplement for Special Tests and Provisions including:

- Increases in the RLF Capital Base and Capital Utilization
- Loan requirements as it pertains to the Board of Director's approval, signed bank turn-down letter, financed activity in approved lending area, and credit was not otherwise available to the borrower.

Documentation of the quarterly reporting to the grantor agency is also not evidenced as being reviewed by the audit.

Audit efforts pertaining to the compliance or internal controls over compliance of the major program are not adequate.

We recommend that the audit be planned and performed using Uniform Guidance and applicable Compliance Supplement guidance.

These matters were discussed with the engagement partner on March 23, 2021.

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

Mr. John D. Morrow
Page Five

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

Very truly yours,



McBride, Lock & Associates, LLC

RESPONSE BY CPA

John D. Morrow

Certified Public Accountant

Member
Iowa
Society

Certified Public Accountants

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Wall Lake, IA 51466

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June 23, 2021

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

This response letter is in regard to the draft Quality Control Review report of Region XII Development Corporation, Inc. letter dated March 14, 2021 received by email June 16, 2021.

First, one correction to the Overview of Procedures Performed paragraph. The report is for Region XII Development Corporation, Inc. (a non-profit corporation).

Response to Auditor Signature not on Reports. To document the distribution and users of issued audited financial statements from our office, I do not sign reports until management or the governance body of Region XII Development Corporation, Inc. authorized my firm to issue a report to them or a third party user. The Federal Clearinghouse report was uploaded from a PDF file which did not contain my signature on the auditor's reports. In the future, PDF reports will contain my signature and will be reviewed before the reports are issued. I will also change my method of controlling distribution of audited financial statements. This will become the responsibility of the entity. In the future, I will add a manual signature.

Response to Audited Financial Statements not in accordance with GAAP. Grantees must be responsible to other government units (grantors) and be focused on their monitoring activities. The financial information must be relevant for grantors. Region XII Development Corporation's governance and management reporting is intended to enhance the understandability and usefulness of the annual financial statements by the grantors. Exhibit A, page 8, Statement of Financial Position, reports the business enterprise loans under Other Assets in accordance with GAAP. Note 7 on page 16 and 17 disclose the detail of loan activities and beginning & ending balances. However, Exhibit B Statement of Activities, does present the loan repayments as revenue and participant loans as expenses in accordance with grant management fund accounting and reporting requirements established by the grantor. Since the financial statements are the responsibility of the governance and management of Region XII Development Corporation, Inc, it is my opinion that they have been properly reported. However, if grant management fund accounting is not generally accepted accounting principals for governmental reporting, then a sentence should be added to the Independent Auditor's Report that Exhibit B is not prepared in accordance with GAAP. Since this issue has never been addressed by the Grantor's desk reviewer's, or in any prior peer review, I am not at this time concurring to your conclusion with a basis inconsistent with GAAP. This is under further review by my firm, Region XII Development Corporation, Inc.'s management, and the grantor.

Response to SEFA, page 20 of the audited financial statements does not report each EDA RLF grant separately. EDA2 Grant and the EDA3 Grant are shown on separate lines. The (CFDA 11.307) Compliance Supplement states "a note showing the figures used in this calculation should be included in the SEFA". It does not say MUST. However, in subsequent reports, management will include these calculations in the future financial statement Schedule of Expenditures of Federal Awards.

Response to Inadequate Support of Audited Amounts. The governance and management are responsible for the presentation and preparation of financial statements for three related affiliates, Region XII Council of Governments, Inc., Region XII Development Corporation, Inc. and Council of Governments Housing, Inc. The RFP for the audit engagement includes all three entities. In prior periods our audit included all three entities

in one audit file. In recent years, we have separated the 3 entities into 3 audit files. When I plan the audit, management supplies a financial statement for the **Overall** Balance Sheet and Revenue & Expenses, and a Balance Sheet and Revenue & Expenses for each entity separately, Region XII Council of Governments, Inc., Region XII Development Corporation, Inc., and Council of Governments Housing, Inc. The 3 entity's financial statements total to the **overall** financial statements. Much of the audit evidence is tied to the Overall Financial Statement which can in some cases, be co-mingled. For instance, Cash. All the program beginning net assets, revenue, expenses, and ending net assets are tied to their Overall Financial Statements. The workpapers analyzing Federal Award Revenues include all 3 entities. The disbursements and payroll testing include expenses for all 3 entities. Each program revenue and expense are maintained for every program administered and by each entity managed. I now understand that a lead schedule reconciling each entity to the Overall Financial Statement is important and the audit efforts for all 3 entities should be included in each entity's audit file. An example of audit efforts is presented in GB 4.61 and GB 4.62 "Risk, Fraud & Management Assessment". GB 4.61 is prepared during planning and assesses 18 topics with governance and positions of management. Then, after concluding the fieldwork, the same assessment is done again to see if our audit efforts have changed my professional judgement of the planning stage assessment. The same procedures are performed for Design and Implementation of Internal Controls., The number of hours worked in the audit of all 3 entities totaled 268 hours. Therefore, it is my opinion that adequate audit effort was spent on this audit report.

Response to Single Audit Efforts. The audit procedures performed for cash disbursements and loan file testing were for the purpose of examining the detail and original documents which related to accounting transactions. When examining these detail records, the audit effort is to test th entity's compliance with its Fiscal Policies Manual, Procurement Policy and Region XII Development Corporation, Inc.'s understanding and compliance with grant requirements, including those listed in the Compliance Supplement. The expense testing workpaper was designed to document these procedures. These procedures are for the overall testing of expenses, however, I now agree that for single audit testing, they need to be expanded. I am sure that many of the items mentioned in your findings were given to me by management. After reviewing the documents for all 3 entities, the workpapers are adequate to provide evidence that these compliance items were tested.

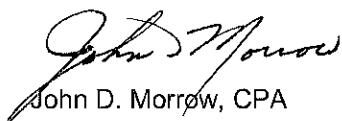
After reviewing your review results and responding to my audit efforts, it is my opinion that separating the 3 entity audit files was detrimental to this review's results.

I would like to further comment that in March 2020, Covid-19 disrupted our office for the remainder of tax season which lasted through July 2020 and with extensions, into October 2020. Our audit season begins in May, when our audit planning and audit files are created. Unfortunately, in 2020 these audit files were delayed and the audit season went into this year. The effect on your review was that, in desperation, the June 30, 2019 audit files for all 3 entities were somewhat co-mingled.

For the future of this practice, I have purchased the Thompson Reuters Advance Flow with Checkpoint Engage. After only one month of use, I can see that cross-referencing of all audit effort will certainly improve.

In conclusion, I do not agree that the audit did not meet Generally Accepted Auditing Standards, Government Audit Standards and the Uniform Guidance with exception to inadequate documentation of its compliance supplement requirements.

Sincerely,


John D. Morrow, CPA

Attached are some additional workpapers from the Region XII Council of Governments, Inc. audit file which were not included in the Region XII Development Corporation, Inc. audit file because they related to the Overall Financial Statements.

CONCLUSION

Conclusion

The conclusion is based on our review of the auditor's workpapers provided, the exit conference held on March 23, 2021 and the auditor's response.

Auditor's Signature Not on Reports

The auditor concurs that signatures was not on reports to ensure that only appropriately authorized reports are distributed. The auditor has indicated that he is modifying the method of controlling the distribution of the reports.

No modification is made to this finding as initially stated.

Audited Financial Statements Not in Accordance with Generally Accepted Accounting Principles

The auditor concurs with the condition but is unclear as to whether the reported financials are not in accordance with Generally Accepted Accounting Principles.

No modification is made to this finding as initially stated.

Schedule of Expenditure of Federal Awards

The auditor indicates that the citation states "should" rather than "must" as it pertains to a note showing the figures used in the calculation. The auditor indicates that future reports will include the requested information in the note. A separate line for each of the EDA grants was provided in the SEFA.

No modification is made to this finding as initially stated.

Inadequate Support of Audited Amounts

The auditor provides indication that the extent of efforts performed to review the Overall balance sheets of the collective organizations audited was adequate. The difficulty, as indicated in the response, is the separation of that overall effort into the 3 entities that comprise the overall organization. The audit report that was evaluated therefore, per the response would not fully support the audited financial statement for this particular entity.

The response therefore provides concurrence that the audited financial statements of this entity are not fully supported by audit workpapers.

No modification is made to this finding as initially stated.

Single Audit Efforts

The auditor provides a description of efforts performed but concurs that more expansive efforts will need to be included.

No modification is made to this finding as initially stated.

Conclusion

We conclude that the audit of the Region XII Development Corporation, Inc. for the year ended June 30, 2019 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.