



U.S. DEPARTMENT OF TRANSPORTATION  
**OFFICE OF INSPECTOR GENERAL**

**Quality Control Review on a Single Audit  
of Lake of the Woods County,  
Baudette, MN**

**FHWA**

Report No. QC2018102

September 24, 2018





## Quality Control Review on a Single Audit of Lake of the Woods County, Baudette, MN

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*Self-Initiated*

Federal Highway Administration | QC2018102 | September 24, 2018

### What We Looked At

We performed a quality control review (QCR) on the single audit that Hoffman, Philipp, & Knutson, PLLC (HPK) performed for Lake of the Woods County's (County) fiscal year that ended December 31, 2016. During this period, the County expended approximately \$2.1 million from a U.S. Department of Transportation (DOT) grant program. HPK determined that DOT's major program was the Highway Planning and Construction program.

Our QCR objectives were to determine whether (1) the audit work complied with the Single Audit Act of 1984, as amended, the Office of Management and Budget's Uniform Guidance, and the extent to which we could rely on the auditors' work on DOT's major program; and (2) the County's reporting package complied with the reporting requirements of the Uniform Guidance.

### What We Found

HPK's audit work complied with the requirements of the Single Audit Act, the Uniform Guidance, and DOT's major program. We found nothing to indicate that HPK's opinion on DOT's major program was inappropriate or unreliable. However, we identified deficiencies in the HPK's audit work that should be corrected in future audits. In addition, we identified deficiencies in the County's reporting package that required correction and resubmission.

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# Contents

Memorandum	1
QCR Objectives	3
QCR Results	3

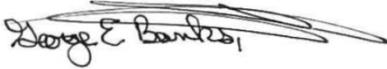


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## Memorandum

Date: September 24, 2018

Subject: FINAL REPORT: Quality Control Review on a Single Audit of Lake of the Woods County, Baudette, MN | Report No. QC2018102



From: George E. Banks, IV  
Program Director

To: Division Administrator, Federal Highway Administration (FHWA), Minnesota Division Office

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The U.S. Department of Transportation (DOT) is the oversight<sup>1</sup> Federal single audit<sup>2</sup> Agency for Lake of the Woods County (County). Hoffman, Philipp, & Knutson, PLLC (HPK) performed the single audit for the County's fiscal year that ended December 31, 2016.<sup>3</sup> During this period, the County expended approximately \$2.1 million from a DOT grant program. HPK determined that DOT's major program was the Highway Planning and Construction program.

HPK rendered an unmodified opinion on the County's financial statements and compliance with the requirements of DOT's major program and did not question any costs.<sup>4</sup> We performed a quality control review (QCR) on HPK's audit work as it

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<sup>1</sup> An oversight agency is the Federal agency that provides the predominant amount of direct funding to a non-Federal entity that expends less than \$50 million in Federal funding.

<sup>2</sup> A single audit, as required by the Single Audit Act of 1984, as amended, combines a financial statement audit with other required audit coverage. Under the act, a single audit is required when a non-Federal entity expends more than \$750,000 of Federal funds during a fiscal year.

<sup>3</sup> Copies of single audit reports prepared pursuant to the Office of Management and Budget's (OMB) Uniform Guidance are available for download at <https://harvester.census.gov/facweb/>.

<sup>4</sup> Under Title 2 of the Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the auditor is required to render an opinion on the entity's financial statements, identify inappropriate use of Federal funds, and report internal control and compliance deficiencies that affect Federal grant programs.

pertains to DOT's major program included in the single audit and on the County's reporting package.<sup>5</sup>

We appreciate the courtesies and cooperation of HPK representatives during this review. If you have any questions concerning this report, please call me at (202) 420-1116, or John R. Sysak, DOT's National Single Audit Coordinator, at (443) 602-4147.

cc: The Secretary  
DOT Appointee for Single Audits  
DOT Single Audit Liaison  
Audit Liaison, FHWA, HCFB-32  
County Auditor/Treasurer, Lake of the Woods County  
Partner, Hoffman, Philipp, & Knutson, PLLC

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<sup>5</sup> The reporting package submitted by the grantee to the Federal Audit Clearinghouse includes the financial statements, the schedule of expenditures of Federal awards, the schedule of prior audit findings (if applicable), and the auditor's report(s) on (a) the financial statements; (b) internal control over financial reporting and compliance and other matters; and (c) compliance for each major program. In addition, a data collection form is submitted to provide information about the auditee, its Federal programs, and the results of the audit.

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## QCR Objectives

Our QCR objectives were to determine whether (1) the audit work complied with the Single Audit Act of 1984, as amended, the Office of Management and Budget's Uniform Guidance, and the extent to which we could rely on the auditors' work on DOT's major program and (2) the County's reporting package complied with the reporting requirements of the Uniform Guidance.

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## QCR Results

Our QCR entailed reviews of HPK's audit work and County's reporting package.

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### Review of Audit Work

HPK complied with the requirements of the Single Audit Act, the Uniform Guidance, and DOT's major program, and we found nothing to indicate that HPK's opinion on DOT's major program was inappropriate or unreliable. However, we identified deficiencies in HPK's audit work that should be corrected in future audits. Accordingly, we assigned HPK an overall rating of ***pass with deficiencies***.<sup>6</sup>

We identified the following deficiencies:

**Compliance Testing.** HPK needs to improve its audit documentation to support how it met the audit objectives for several direct and material compliance requirements.

**Sampling Methodology.** HPK did not document the sampling plan and methodology it used to test internal control and compliance for the major program's direct and material compliance requirements.

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<sup>6</sup> The Council of Inspectors General on Integrity and Efficiency's Guide for QCRs of single audits provides a methodology for conducting and rating auditors' work. The guide provides three possible ratings, pass, pass with deficiencies, and fail.

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## Review of Reporting Package

In our desk review of County's reporting package submitted to the Federal Audit Clearinghouse (FAC), we identified the following deficiency that required correction and resubmission.

The County's reporting package was due to the Federal Audit Clearinghouse on or before September 30, 2017. However, HPK did not issue its report until December 28, 2017, approximately 3 months after the due date, and the County subsequently submitted its reporting package to the FAC on the same day. As a result the county did not comply with the reporting submission requirement and HPK did not report the late submission of the County's reporting package as a current year audit finding.

After we identified this issue, HPK developed a new finding on reporting requirements, reissued their report, and coordinated with the County to jointly re-submit a corrected reporting package to the FAC.

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