

are subject to audits in accordance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the Single Audit Act of 1984, as amended. On an annual basis, TCBA audits 20 to 25 grantees that expend more than \$300 million in Federal funds.

The cognizant federal agencies to which we report are as follows:

- U.S. Department of Health and Human Services,
- U.S. Department of Transportation,
- U.S. Department of Education,
- U.S. Department of Agriculture,
- U.S. Department of Housing and Urban Development,
- U.S. Department of Justice,
- Environmental Protection Agency,
- U.S. Department of Labor,
- U.S. Agency for International Development, and
- National Aeronautics and Space Administration.

These audits include an assessment of financial capability and viability, compliance with federal requirements, and internal controls of recipients.

D. CORPORATE GOVERNANCE AND ASSURANCE

TCBA's professionals have gained extensive experience providing corporate governance consulting, audit committee guidance, compliance with the Sarbanes-Oxley Act of 2002, and internal control reviews. TCBA is registered with the Public Company Accounting Oversight Board (PCAOB).

TCBA has witnessed first-hand the many changes in the

regulatory and financial reporting climates and the impact of these changes on our clients.

The Sarbanes-Oxley Act of 2002 provides:

- an opportunity to improve internal control and governance processes,
- voluntary compliance to better position a company in establishing business credit and financing,
- encouragement for companies to comply with the Act although it may not be mandated by law,
- an opportunity for companies to enhance relationships and credibility with stakeholders (investors, funders, the media, members, customers, employees, private accrediting agencies, insurers, governing boards, parent organizations and Federal, state, and local government regulators),
- copycat laws that are being considered by other regulators and state government, and
- sound performance tool for business leaders and multi-national corporations to enhance accounting and governance practices.

The Cascade Effect

Although the Sarbanes-Oxley Act of 2002 only affects public companies, it is having a profound effect on all companies and organizations.

- Elliot Spitzer, Attorney General of New York State, introduced legislation in 2003 to have all nonprofit organization that operate in New York State comply with the Sarbanes-Oxley Act of 2002.
- California has passed several laws that address issues such as retention of audit papers and prohibitions on having auditors join clients' firms.
- More than a dozen states have adopted or proposed some form of parallel legislation aimed at public

companies and auditors that could result in some form of mandated compliance.

TCBA has been able to assist our clients solve problems through a variety of services, including the following:

- Fraud and forensic audits and investigations
- Audit committee governance and compliance issues
- Best practices for Boards of Directors and Audit committees
- Financial and compliance auditing
- Business process reengineering
- Accounting services
- Performance and operational reviews
- Cost containment and revenue enhancement
- Financial management and budgeting
- Internal audit assistance
- Information technology services
- Program and organization assessment

Summaries of selected engagements are shown below.

1. WGL Holdings Internal Audit Support

TCBA assists the Internal Audit Department of WGL Holdings Company – in a co-source arrangement – by performing selected internal audit projects. WGL Holdings is the parent company of the Washington Gas Light Company, which provides natural gas to over one million consumers in the Washington, DC metropolitan area. TCBA recently completed an audit of the corporate purchasing card system.

2. PEPCO Holdings Company Internal Audit Support

TCBA assists the Internal Audit Department of PEPCO Holdings, Inc. (PHI) Internal Audit Department through

a co-source arrangement in which TCBA performs selected internal audit projects. PEPCO Holdings is the parent company of the Potomac Electric Power Company and Connectiv, which collectively provide electric power to millions of customers in New Jersey, Delaware, and the Washington, DC metropolitan area. TCBA is currently performing an attestation of the emissions disclosure statement for power provided by PHI's New Jersey subsidiary, Atlantic City Electric.

3. Forensic Audit of the Entertainment Industry Development Corporation

TCBA conducted an investigative audit of the Entertainment Industry Development Corporation (EIDC) of the City of Los Angeles. The EIDC was created by the City and County of Los Angeles to promote film production in Los Angeles and streamline the issuance of film permits to production companies. The EIDC's former director was under investigation by the District Attorney's Office for alleged misuse of public funds. TCBA was engaged to assist the City of Los Angeles in determining whether public funds received by the EIDC were properly accounted for and expended over a 3-year period. TCBA's audit uncovered many instances of lavish spending that was not connected to the purpose, mission and programs of EIDC.

4. Internal Audit Support for the Los Angeles Unified School District (LAUSD)

TCBA provides internal audit support services to the Los Angeles Unified School District, which has an annual budget of over \$11 billion. This engagement is a complete co-source arrangement between the LAUSD's Office of the Inspector General (IG) and TCBA. TCBA provides internal audit assistance to the IG's office in developing audit objectives, determining

audit scope, designing audit methodology, documenting history and legal authority for the audited program or function, assessing audit risk, determining sampling methodology, estimating budgeted hours, and assisting with performing field work. TCBA provides input in determining priority areas of high risk for the IG's annual audit plan. Because of our extensive experience with school systems, TCBA is knowledgeable of best practices related to the audit areas in question.

TCBA performed an audit of the IG's compliance with a \$200 million Title I federal grant. The project included discovery interviews with approximately 20 school administrators. TCBA also performed an operational review of the IG's internal operations. The review included an assessment of the audit process and procedures for adherence to LAUSD's procedures for contracting, use of procurement cards, payroll processing, and maintenance of audit files.

5. Internal Control Review of Business Processes of the Community Redevelopment Agency of Los Angeles

TCBA completed an internal control review of CRA's business processes related to the acquisition and disposition of real estate, the procurement of contractors and consultants, and records management services. Our review found the CRA lacked adequate written policies and procedures, which resulted in inefficiencies and inconsistencies in how the agency acquired and disposed of real estate. Our review also found internal control weaknesses in records management and oversight of contractors and consultants.

6. Internal Audit Services for the Compton Unified School District

For two years, TCBA assisted the Compton Unified School District (CUSD) in achieving financial accountability and operational effectiveness. CUSD had undergone a review by the Fiscal Crisis and Management Assistance Team, which recommended that the school district retain professional services to improve its operations.

TCBA worked with the CUSD Board to identify and assess areas of weakness and make recommendations for improvement. We also assisted in several fraud investigations at CUSD.

7. Review of Internal Audit Department of the City of Durham, North Carolina

Under a contract with the National Forum of Black Public Administrators, TCBA provided support to Durham's Internal Audit Department. We reviewed the department's organization and reporting structure, internal audit charter, job descriptions, current and proposed budgets, and existing policies and procedures to assess their efficiency and effectiveness in achieving the department's mission. TCBA made major recommendations to revise the charter and improve staff training and professional development and the reporting structures.

8. Internal Audit Services for the Southern California Regional Rail Authority

TCBA recently won a 3-year engagement with the Southern California Regional Rail Authority, which oversees Metrolink, the regional commuter rail service. Among the services being provided are contract auditing, internal controls reviews, and operations reviews of programs and activities.

9. Financial Audit of the National Capital Revitalization Corporation

TCBA performed the annual financial audit of the National Capital Revitalization Corporation (NCRC), a public-private entity designed to manage major development projects in the District of Columbia. NCRC's mandate includes a myriad of incentives and other economic development tools that can be used to foster development in the District's downtown area and neighborhoods.

As a publicly chartered real estate company, NCRC has two major roles: initiator of partnerships to implement large-scale real estate development projects and service provider of high-quality transactional and asset management services for undeveloped property owned, leased, or financed by the District of Columbia.

10. Accounting and Consulting Services for T-Mobile's E-911 Service

T-Mobile is a wireless telecommunications company that has operations in approximately 45 states. It is engaged in an ongoing process of implementing phase 1 E-911 services in each of these states and some of their local municipalities. Most of the states and local municipalities have agreed to reimburse T-Mobile and other wireless carriers for their costs for implementing and operating E-911 services. As such, T-Mobile has established an E-911 cost recovery process for tracking and supporting its E-911 expenses, developing an E-911 cost model, and billing and collecting E-911 expenses.

TCBA has been retained to perform a combined accounting and consulting engagement to assist T-

Mobile by:

- Reviewing, analyzing, and testing controls of the existing E-911 cost recovery business process
- Reviewing, analyzing, and verifying E-911 expenses
- Updating the cost recovery factors based on E-911 expenses and subscriber and cell sector counts for 2003
- Ensuring that supporting documentation and billings for E-911 expenses meet each state's legislative requirements
- Providing recommendations to ensure acceptance of T-Mobile billings, supporting documentation, and independent review of expenditures by state
- Preparing an independent accountant's report that opines on the fair presentation of T-Mobile's 2003 E-911 expenses

11. AllAfrica, Inc.

AllAfrica is a global multi-media content service provider and the largest distributor of African news and information worldwide. TCBA performs the annual financial audit of this organization.

12. Union Station Development Corporation

TCBA assisted the Union Station Redevelopment Corporation in maximizing its revenue through enhanced oversight and monitoring of the management company responsible for operating Union Station. Our analysis included a review of the management company's leasing practices, accounting and reporting systems, and internal controls to ensure that base, participation, and overage rents were properly charged, collected, and reported.

13. Industrial Bank of Washington (IBW)

TCBA served as subcontractor to a national accounting firm to perform the annual audit of IBW. In addition, on an earlier engagement, TCBA assisted IBW in assessing the continuing soundness of its commercial asset-based borrowers by performing audits of borrowers' accounts receivable and by reviewing their internal control structure and financial statements. Reports furnished to the bank for each borrower included recommendations for improving the borrower's operations and financial management systems.

E. INFORMATION TECHNOLOGY ASSURANCE & CONTROL GROUP

As corporations and governmental organizations rely more heavily on technology to provide timely, complete, and accurate financial information in order to make critical business decisions and to comply with governing laws and regulations, TCBA has responded to the need for increased information security by creating the Information Technology Assurance & Control Group (ITAC). ITAC is a cadre of IT auditors and IT security specialists with extensive experience in multiple systems and platforms: from mainframe systems to LANs, from Unix to MVS. This team specializes in technology risk and vulnerability assessments, IT audit techniques, and security assessments.

ITAC has significantly improved the service delivery process of TCBA and has clearly distinguished TCBA from its competitors. Through ITAC, TCBA provides superior services to existing and new clients through reviews and advisory services on emerging opportunities and threats relating to technology security.

Services

The ITAC group provides the following services:

- Electronic audit of financial transactions
- IT risk assessments
- Internet security and vulnerability testing
- Operating systems security reviews
- Logical and physical security reviews
- Network security assessments
- Perimeter protection and network reviews
- Database security
- Data integrity testing
- E-commerce/EDI reviews/Systrust/WebTrust
- IT regulatory compliance reviews
- System implementations evaluations
- General and application controls reviews
- Independent Verification and Validation (IV&V) services
- Business continuity planning and disaster recovery planning
- Security policy development and training
- Regulatory compliance with HIPAA, Sarbanes-Oxley Act, OMB Circulars, FISMA
- SAS 70 reviews, Gramm-Leach-Bliley Act
- IT strategic planning assistance
- Penetration testing
- System certifications and re-accreditation

Authorities and Regulatory Bodies

Most of our engagements are governed by or relate to reputable and industry accepted authorities and bodies.

- American Institute of Certified Public Accountants (AICPA)