

FEDERAL TRADE COMMISSION
OFFICE OF INSPECTOR GENERAL



**REPORT ON THE EXTERNAL QUALITY CONTROL REVIEW
OF THE NATIONAL ENDOWMENT FOR THE ARTS
INSPECTOR GENERAL AUDIT ORGANIZATION**

August 2010



OFFICE OF
INSPECTOR GENERAL

FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

System Review Report

August 30, 2010

Tonie Jones
Acting Inspector General
National Endowment for the Arts
1100 Pennsylvania Avenue, NW, Suite 601
Washington, DC 20506

We have reviewed the system of quality control for the audit organization of the National Endowment for the Arts Office of Inspector General (NEA OIG) in effect for the year ended March 31, 2010. A system of quality control encompasses the NEA OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards*. The NEA OIG is responsible for designing a system of quality control and complying with it to provide the NEA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the NEA OIG's compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed NEA OIG personnel and obtained an understanding of the nature of the NEA OIG audit organization, and the design of the NEA OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected audit engagements and administrative files to test for conformity with professional standards and compliance with the NEA OIG's system of quality control. The audit engagements selected represented a reasonable cross-section of the NEA OIG's audit organization, with emphasis on higher-risk engagements. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with NEA OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

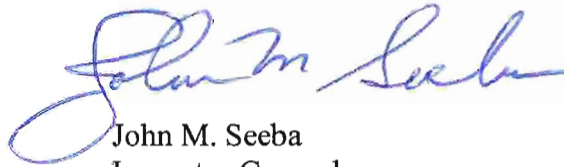
In performing our review, we obtained an understanding of the system of quality control for the NEA OIG's audit organization. In addition, we tested compliance with the NEA OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the NEA OIG's policies and procedures on selected engagements. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

There are inherent limitations in the effectiveness of any system of quality control, and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

The enclosure to this report identifies the NEA OIG office that we visited and the engagements that we reviewed.

In our opinion, the system of quality control for the audit organization of the NEA OIG in effect for the year ended March 31, 2010, has been suitably designed and complied with to provide the NEA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. The NEA OIG has received a peer review rating of *pass*. As is customary, we have issued a letter dated August 30 that sets forth a finding that was not considered to be of sufficient significance to affect our opinion expressed in this report.

In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the CIGIE related to the NEA OIG's monitoring of engagements performed by Independent Public Accountants (IPA) under contract where the IPA served as the principal auditor. It should be noted that monitoring of engagements performed by IPAs is not an audit and therefore is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether the NEA OIG had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and accordingly, we do not express an opinion, on the NEA OIG's monitoring of work performed by IPAs.



John M. Seeba
Inspector General

Enclosure

SCOPE AND METHODOLOGY (Enclosure)

Scope and Methodology

We tested compliance with the NEA OIG's system of quality control to the extent we considered appropriate. These tests included a review of 2 of 4 audit reports issued during the period April 1, 2009, through March 31, 2010. There were no attestation reports issued during that period. We also reviewed the internal quality control reviews performed by the NEA OIG.

In addition, we reviewed the NEA OIG's monitoring of engagements performed by IPAs during the period April 1, 2009 through March 31, 2010. During the period, the NEA OIG contracted for the audit of its agency's Fiscal Year 2009 financial statements that were to be performed in accordance with *Government Auditing Standards*.

Our work was performed at the Washington, DC office of the NEA OIG.

Reviewed Audits Performed by the NEA OIG

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
LS-09-01	04/03/2009	Pennsylvania Council on the Arts, Harrisburg, PA
LS-10-01	10/30/2009	Family Resources, Inc., FL

Reviewed Monitoring Files of the NEA OIG for Contracted Engagements

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
AR-10-01	11/09/2009	Audit of NEA Financial Statements as of September 30, 2009 and 2008