



**Peer Review of the Audit Operations of the  
National Endowment of the Arts  
Office of the Inspector General**

**ISSUED:  
December 13, 2013**



**U.S. CONSUMER PRODUCT SAFETY COMMISSION  
BETHESDA, MD 20814**

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Inspector General

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## **System Review Report**

December 13, 2013

Ms. Tonie Jones, Inspector General  
National Endowment for the Arts  
1100 Pennsylvania Avenue, Room 601  
Washington, D.C. 20506

Dear Ms. Jones:

We have reviewed the system of quality control for the audit organization of the National Endowment for the Arts (NEA), Office of Inspector General (OIG) in effect for the year ended March 31, 2013. 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 the 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 engagements and administrative files to test for conformity with professional standards and compliance with the NEA OIG's system of quality control. The 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 the 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.

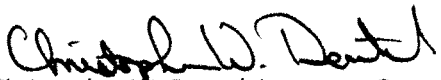
This report identifies the office of the NEA OIG that we visited and the engagements that we reviewed.

In our opinion, the system of quality control for the audit organization of NEA OIG in effect for the year ended March 31, 2013, 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*. NEA OIG has received a peer review rating of *pass*.

As is customary, we have issued a letter dated December 13, 2013 that sets forth findings that were 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 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 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 NEA OIG's monitoring of work performed by IPAs.

We made certain comments related to the NEA OIG's monitoring of engagements performed by IPAs that are included in the above referenced letter of comment dated December 13, 2013. These comments do not affect the opinion expressed in this report.

  
Christopher W. Dentel, Inspector General



**U.S. CONSUMER PRODUCT SAFETY COMMISSION  
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# SCOPE AND METHODOLOGY

## Scope and Methodology

We tested compliance with the NEA OIG audit organization’s system of quality control to the extent we considered appropriate. These tests included a review of 1 of 6 audit reports issued during the period September 30, 2012, through April 1, 2013, and semiannual reporting periods April 1, 2012 through September 30, 2012 and October 1, 2012 through March 31, 2013. We also reviewed the internal quality control review performed by the NEA OIG.

In addition, we reviewed the NEA OIG’s monitoring of engagements performed by IPAs where the IPA served as the principal auditor during the period September 30, 2012, through April 1, 2013. During the period, NEA OIG contracted for the audit of its agency’s Fiscal Year 2012 financial statements to Leon Snead & Company, P.C.

We visited the Washington, DC office of the NEA OIG.

<b>Reviewed Engagements Performed by NEA OIG</b>		
<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
LS-12-02	8/3/12	Limited Scope Audit Report of the Association of Performing Art Presenters (DC)
<b>Reviewed Monitoring Files of NEA OIG for Contracted Engagements</b>		
<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
A-13-01	11/08/12	NEA FY 2012 Financial Statement Audit

## Letter of Comment

December 12, 2013

To: Tonie Jones, Inspector General  
National Endowment for the Arts

We have reviewed the system of quality control for the audit organization of the National Endowment for the Arts (NEA), Office of Inspector General (OIG) in effect for the year ended March 31, 2013, and have issued our report thereon dated December 12, 2013, in which the OIG received a rating of *pass*. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The findings described below were not considered to be of sufficient significance to affect the opinion expressed in that report.

### **Finding 1: Audit Policies and Procedures**

Audit organizations should have documented policies and procedures in place to provide reasonable assurance of compliance with the Government Accountability Office's (GAO) Government Auditing Standards (also known as Generally Accepted Government Auditing Standards (GAGAS)). According to GAGAS, audit organizations are required to develop and maintain a system of quality control that includes adequate policies and procedures. In addition, GAGAS requires the documentation and maintaining of such policies and procedures to serve as a reference for audit staff.<sup>1</sup> The OIG maintains the majority of its audit policies and procedures in the NEA OIG Audit Manual. During our review of the OIG's audit policies and procedures, we were unable to obtain adequate documentation of certain policies and procedures, set out below, related to following GAS requirements that are essential to compliance with GAGAS:

#### *Independence*

- 3.24: Documentation of Independence Safeguards
- 3.26: Threats to Independence and revision to audit findings and recommendations
- 3.16 – 3.17: Discussion of all independence safeguards

#### *Planning – Performance Audits*

- 6.40 – 6.44: Using work of others
- 6.23 – 6.27: Understanding Information System Controls
- 6.34: Abuse

#### *Reporting Standards – All Engagements*

- 7.21 – 7.23: Reporting requirements for fraud and abuse
- 7.39 – 7.43: Reporting confidential or sensitive information

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<sup>1</sup> Government Auditing Standards, (GAO-12-331G), December 2011 Revision

3.83 "An audit organization's system of quality control encompasses the audit organization's leadership, emphasis on performing high quality work, and the organizational policies and procedures to provide reasonable assurance of complying with professional standards and applicable legal and regulatory requirements."

3.84 "Each audit organization should document its quality control policies and procedures and communicate those policies and procedures to its personnel."

Further inquiry of the OIG found that many of the GAS requirements in question had been implemented but were not fully documented in the OIG’s policies and procedures, and that the OIG ensures that all audit staff demonstrates a sufficient level of competence in performing their duties. Through our review of staff profiles and training records, we noted that all OIG staff had an exceptional level of competence and expertise. However, having explicitly documented audit policies and procedures reinforces compliance with all GAS requirements.

Upon notice of the deficiencies during our review, the OIG performed edits of the NEA OIG Audit Manual to address the standards noted above. However, we did not perform procedures to assess the adequacy of these changes, as the updates of those policies and procedures occurred outside of the designated review scope period. Thus, we do not express an opinion regarding the updated policies and procedures.

**Recommendation:** Ensure all OIG audit policies and procedures are completely documented in the NEA OIG Audit Manual in adherence with GAGAS.

**Views of Responsible Official:** Concurred

### **Finding 2: Documentation of the Assessment of Threats using Independence Conceptual Framework**

The GAGAS’s independence framework mandates the use of a conceptual approach that can accommodate for varying situations and circumstances that auditors can encounter which can pose a “threat” and possibly impair the auditors’ independence. Therefore, the auditor should perform and document the assessment of threat(s) to determine whether there is a need for the auditor to apply safeguard(s) to either reduce or eliminate the threat.<sup>2</sup> In our review of the performance audit, there was no documentation in the audit file regarding the assessment of threats.

The OIG’s current policy addresses auditor independence by requiring the completion of the NEA’s OIG “Statement of Independence.” This affirmation of independence is included in each audit working paper file in addition to a separate independence workpaper that documents the completion of the independence form and affirms that the auditor is independent and free from personal, external, and organization impairments. However, the affirmation requires that the auditor have “read” the GAGAS independence requirements, including those of the conceptual

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<sup>2</sup> Government Auditing Standards, (GAO-12-331G)

3.08 “Auditors should apply the conceptual framework at the audit organization, audit, and individual auditor levels to:  
a. identify threats to independence; evaluate the significance of the threats identified, both individually and in the aggregate; and  
c. apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level.”

3.59 “Documentation of independence considerations provides evidence of the auditor’s judgments in forming conclusions regarding compliance with independence requirements. GAGAS contains specific requirements for documentation related to independence, which may be in addition to the documentation that auditors have previously maintained. While insufficient documentation of an auditor’s compliance with the independence standard does not impair independence, appropriate documentation is required under the GAGAS quality control and assurance requirements. The independence standard includes the following documentation requirements: a. document threats to independence that require the application of safeguards, along with safeguards applied, in accordance with the conceptual framework for independence as required by paragraph 3.24”

framework. It does not explicitly require the auditors to document the assessment of threats using the conceptual framework. The nature of the audits performed by the NEA OIG is primarily compliance based. Although pragmatically, while there may be no threats to independence in regards to the audits they perform in general, without documenting the initial assessment of threats included in the conceptual framework, the auditor cannot provide reasonable assurance that threats do not exist in any particular audit nor demonstrate adherence to GAGAS.

**Recommendation:** Clarify the documentation requirements of the use of the independence conceptual framework in their policies and procedures, explicitly concerning the documentation of the assessment of threats. Specifically, the NEA OIG should update the individual independence workpaper in each audit to include procedures to document the assessment of threats.

**Views of Responsible Official:** Concurred

### **Finding 3: Annual Internal Quality Control Review**

The OIG did not comply with its quality control procedures for reviewing the audit organization annually. We identified that the annual quality control review performed by the IG most recently covered a two-year period including both 2011 and 2012 audit activities. However, it is the OIG's policy to conduct the review annually. In addition, GASAS requires the annual summarization of each audit organization's monitoring process.<sup>3</sup> The IG indicated that the cause of the bi-annual review was that of internal constraints that prevented the timely performance of the 2011 review – resulting in a bi-annual review at the end of 2012. These constraints included lack of staff, resources, and implementation of their new audit software - Auto Audit.

This issue was also noted as a finding in the prior external peer review conducted in 2010. While the OIG did remediate the finding, by performing the review and summarizing the results, the review was untimely in relation to 2011 audit activities. Timeliness is an important factor in the monitoring of the quality of the audit organization, as any deficiencies identified during the review should include the implementation of corrective action in a timely fashion. When the review itself is performed in an untimely manner, deficiencies in audit quality may go unremediated and ultimately affect the operating efficiency and effectiveness of the quality control system.

**Recommendation:** Ensure that annual internal quality control review over the OIG audit organization is performed annually to ensure compliance with GAGAS and NEA OIG audit policies and procedures.

**Views of Responsible Official:** Concurred

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<sup>3</sup> [Government Auditing Standards, \(GAO-12-331G\)](#)

3.95 "The audit organization should analyze and summarize the results of its monitoring process at least annually, with identification of any systematic or repetitive issues needed improvement, along with any recommendations for corrective actions."



#### **Finding 4: Overall Assessment of the sufficiency and appropriateness of evidence**

GAGAS states auditors should perform and document an overall assessment of the collective evidence used to support findings and conclusions, including the results of any specific assessments conducted to conclude on the validity and reliability of specific evidence. As a result of the assessment, auditors should determine the overall sufficiency and appropriateness of evidence to provide a reasonable basis for the findings and conclusions, within the context of the audit objectives.<sup>4</sup>

During our review, we noted that there was no summary documentation to support the performance of the overall assessment of evidence in the performance audit reviewed. Through follow-up discussions with the NEA OIG, we were unable to obtain a clear understanding of why the summary assessment was not documented. Provisions that drive NEA audits include but are not limited to compliance with Office of Management and Budget (OMB) Circulars A-133, A-87, A-110 and/or A-102. Further, the NEA OIG defines these audits as “limited scope,” as only a limited review is performed over certain financial and non-financial grantee information to determine compliance.

Therefore, to gain a further understanding of the audit objectives related to the audits NEA OIG performs, we obtained and reviewed both OMB Circular A-110 and the NEA General Terms and Conditions, which is cited in the performance audit reviewed. In our review, the NEA’s General Terms incorporate the requirements of A-110. As such, A-110 requires that the grantee maintain appropriate financial management systems to include reporting of financial results, internal controls, cost allocations, and policies and procedures just to name a few.<sup>5</sup>

In the performance audit, the audit report cites non-compliance with OMB Circular A-110 and NEA General Terms and Conditions. Specifically, the first audit finding cites that the grantee is not in compliance with aspects OMB Circular A-110 financial management standards. To support this conclusion, the audit report states that the auditor reviewed the grantee’s general ledger detail, something which an experienced auditor would conclude to be significant to the compliance audit objective, based on the direct relationship between the general ledger detail reviewed, OMB Circular A-110 requirements, and the conclusion drawn – noncompliance.

Based on this premise, we believe that the compliance objective(s) is sufficiently significant in nature to warrant the assessment of evidence for the types of audit the NEA OIG performs. While, in the performance audit reviewed, the lack of an overall assessment of the collective

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<sup>4</sup> 6.56 “Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.”  
<sup>6.69</sup> “Auditors should determine the overall sufficiency and appropriateness of evidence to provide a reasonable basis for the findings and conclusions, within the context of the audit objectives... Auditors should perform and document an overall assessment of the collective evidence used to support findings and conclusions, including the results of any specific assessments conducted to conclude on the validity and reliability of specific evidence.”

<sup>5</sup> OMB Circular A-110, Subpart C. Financial and Program Management § .20, Purpose of financial and program management. “Sections \_\_\_\_\_.21 through \_\_\_\_\_.28 prescribe standards for financial management systems, methods for making payments and rules for: satisfying cost sharing and matching requirements, accounting for program income, budget revision approvals, making audits, determining allowability of cost, and establishing fund availability.”

evidence did not result in the use of insufficient or inappropriate evidence, the omission of the required assessment represents a lack of compliance with GAGAS.

**Recommendation:** Document an overall assessment of evidence, as required by GAGAS for all future audits.

**Views of Responsible Office:** Non-concurred

**Finding 5: Degree of Responsibility over IPA Work**

Monitoring of audit work performed by an Independent Public Accountant (IPA) is not an audit and not subject to the requirements of the Yellow Book. Nevertheless, procedures should be performed by the OIG to ensure the IPA's audit work is performed in accordance with appropriate standards.

GAO's Financial Audit Manual (FAM), sets forth standards for auditors using the work of others to include IPAs. As such, when the work of others is used, the auditor should clearly state the degree of responsibility the auditor is taking on the IPA report.<sup>6</sup> The NEA OIG contracted the performance of the NEA's Financial Statement Audit to Leon Snead & Co, P.C. We reviewed the audit planning documentation and the audit file monitoring documentation associated with this contract. We were unable to determine the degree of responsibility that the NEA OIG accepted with regard to the work performed by the IPA. In response, the IG indicated that generally a transmittal letter to NEA management communicates the degree of responsibility that the OIG accepts over the IPA work. However, for the FY 2012 Financial Statement, the relevant language in the transmittal letter was inadvertently omitted.

**Recommendation:** Ensure that the documentation regarding degree of responsibility taken by the OIG over the work of IPAs is properly included in the OIG transmittal letter for future IPA Audits.

**Views of Responsible Office:** Concurred

  
Christopher W. Dentel, Inspector General

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<sup>6</sup> GAO's Financial Audit Manual (GAO-08-82G): Volume Two, Section 650 09 b. "The fourth standard of reporting was amended by SAS No. 114 in AU 150.02 to state "In all cases where an auditor's name is associated with financial statements, the auditor should clearly indicate the character of the auditor's work, if any, and the degree of responsibility the auditor is taking, in the auditor's report.""

**Appendix A – NEA OIG Responses to Letter of Comment**

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December 4, 2013

Mr. Christopher W. Dentel  
Inspector General  
US Consumer Product Safety Commission  
4330 East-West Highway  
Bethesda, MD 20814

Mr. Dentel,

I have reviewed the draft report on the system of quality control for the audit organization of the National Endowment for the Arts (NEA) Office of Inspector General (OIG). Your draft report provided NEA OIG with the highest possible peer review rating, a rating of pass. We are pleased that you determined that our system of quality control was suitably designed and that our adherence to this system provided reasonable assurance that the audit organization performed work and reported results in accordance with professional standards.

As is customary, you provided a letter of comments that sets forth findings that were not considered to be of sufficient significance to affect the opinion expressed in the report.

### **Finding 1: Audit Policies and Procedures**

Audit organizations should have documented policies and procedures in place to provide reasonable assurance of compliance with the Government Accountability Office's (GAO) Government Auditing Standards (also known as Generally Accepted Government Auditing Standards (GAGAS)). According to GAGAS, audit organizations are required to develop and maintain a system of quality control that includes adequate policies and procedures. In addition, GAGAS requires the documentation and maintaining of such policies and procedures to serve as a reference for audit staff. The OIG maintains the majority of its audit policies and procedures in the NEA OIG Audit Manual. During our review of the OIG's audit policies and procedures, we were unable to obtain adequate documentation of certain policies and procedures, set out below, related to following GAS requirements that are essential to compliance with GAGAS:

#### *Independence*

- 3.24: Documentation of Independence Safeguards
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### *Planning – Performance Audits*

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- 6.34: Abuse

### *Reporting Standards – All Engagements*

- 7.21 – 7.23: Reporting requirements for fraud and abuse
- 7.39 – 7.43: Reporting confidential or sensitive information

Further inquiry of the OIG found that many of the GAS requirements in question had been implemented but were not fully documented in the OIG's policies and procedures, and that the OIG ensures that all audit staff demonstrates a sufficient level of competence in performing their duties. Through our review of staff profiles and training records, we noted that all OIG staff had an exceptional level of competence and expertise. However, having explicitly documented audit policies and procedures reinforces compliance with all GAS requirements.

Upon notice of the deficiencies during our review, the OIG performed edits of the NEA OIG Audit Manual to address the standards noted above. However, we did not perform procedures to assess the adequacy of these changes, as the updates of those policies and procedures occurred outside of the designated review scope period. Thus, we do not express an opinion regarding the updated policies and procedures.

**Recommendation:** Ensure all OIG audit policies and procedures are completely documented in the NEA OIG Audit Manual in adherence with GAGAS.

### **Views of Responsible Official:**

The NEA OIG Audit Manual was designed to provide guidance concerning OIG audit operations and facilitate compliance with GAGAS. Throughout the Audit Manual, staff are required to adhere to all applicable professional auditing standards, which includes GAGAS. However, as noted above, we have incorporated the review team's recommendations.

### **Finding 2: Documentation of the Assessment of Threats using Independence Conceptual Framework**

The GAGAS's independence framework mandates the use of a conceptual approach that can accommodate for varying situations and circumstances that auditors can encounter which can pose a "threat" and possibly impair the auditors' independence. Therefore, the auditor should perform and document the assessment of threat(s) to determine whether there is a need for the auditor to apply safeguard(s) to either reduce or eliminate the threat. In our review of the performance audit, there was no documentation in the audit file regarding the assessment of threats.

The OIG's current policy addresses auditor independence by requiring the completion of the NEA's OIG "Statement of Independence." This affirmation of independence is included in each audit working paper file in addition to a separate independence workpaper that documents the

completion of the independence form and affirms that the auditor is independent and free from personal, external, and organization impairments. However, the affirmation requires that the auditor have "read" the GAGAS independence requirements, including those of the conceptual framework. It does not explicitly require the auditors to document the assessment of threats using the conceptual framework. The nature of the audits performed by the NEA OIG is primarily compliance based. Although pragmatically, while there may be no threats to independence in regards to the audits they perform in general, without documenting the initial assessment of threats included in the conceptual framework, the auditor cannot provide reasonable assurance that threats do not exist in any particular audit nor demonstrate adherence to GAGAS.

**Recommendation:** Clarify the documentation requirements of the use of the independence conceptual framework in their policies and procedures, explicitly concerning the documentation of the assessment of threats. Specifically, the NEA OIG should update the individual independence workpaper in each audit to include procedures to document the assessment of threats.

**Views of Responsible Official:**

While the requirement to "read" GAGAS independence requirements is included in the affirmation as stated above, the statement also includes an affirmation that the auditor agrees to adhere to the documentation requirements of the independence standards. In addition, the policy, of which the affirmation is a part, clearly informs the auditor that he/she is "aware of the independence standard prescribed by the Government Auditing Standards, and the necessity of adhering to the standard." We wanted to clarify this point, because the language in this finding could be interpreted that NEA OIG staff is only required to "read" the standards without an understanding of the application or the requirement for adherence. However, we do concur with review team's assessment that an explicit statement instructing the auditors to document threats identified and the safeguards applied, was not included in the policy. As noted in Recommendation No. 1, we have revised the independence policy, engagement program step and the affirmation to include explicit instructions to document threats identified and any safeguards applied, if applicable.

**Finding 3: Annual Internal Quality Control Review**

The OIG did not comply with its quality control procedures for reviewing the audit organization annually. We identified that the annual quality control review performed by the IG most recently covered a two-year period including both 2011 and 2012 audit activities. However, it is the OIG's policy to conduct the review annually. In addition, GASAS requires the annual summarization of each audit organization's monitoring process. The IG indicated that the cause of the bi-annual review was that of internal constraints that prevented the timely performance of the 2011 review – resulting in a bi-annual review at the end of 2012. These constraints included lack of staff, resources, and implementation of their new audit software - Auto Audit. Government Auditing Standards, (GAO-12-331G)

This issue was also noted as a finding in the prior external peer review conducted in 2010. While the OIG did remediate the finding by performing the review and summarizing the results, the review was untimely in relation to 2011 audit activities. Timeliness is an important factor in the monitoring of the quality of the audit organization, as any deficiencies identified during the review should include the implementation of corrective action in a timely fashion. When the review itself is performed in an untimely manner, deficiencies in audit quality may go unremediated and ultimately affect the operating efficiency and effectiveness of the quality control system.

**Recommendation:** Ensure that annual internal quality control review over the OIG audit organization is performed annually to ensure compliance with GAGAS and NEA OIG audit policies and procedures.

**Views of Responsible Official:**

We concur with this recommendation and will implement procedures to ensure that an annual internal quality control review is performed in accordance with GAGAS and audit policies and procedures.

**Finding 4: Overall Assessment of the sufficiency and appropriateness of evidence**

GAGAS states auditors should perform and document an overall assessment of the collective evidence used to support findings and conclusions, including the results of any specific assessments conducted to conclude on the validity and reliability of specific evidence. As a result of the assessment, auditors should determine the overall sufficiency and appropriateness of evidence to provide a reasonable basis for the findings and conclusions, within the context of the audit objectives.

During our review, we noted that there was no summary documentation to support the performance of the overall assessment of evidence in the performance audit reviewed. Through follow-up discussions with the NEA OIG, we were unable to obtain a clear understanding of why the summary assessment was not documented. Provisions that drive NEA audits include but are not limited to compliance with Office of Management and Budget (OMB) Circulars A-133, A-87, A-110 and/or A-102. Further, the NEA OIG defines these audits as “limited scope,” as only a limited review is performed over certain financial and non-financial grantee information to determine compliance.

Therefore, to gain a further understanding of the audit objectives related to the audits NEA OIG performs, we obtained and reviewed both OMB Circular A-110 and the NEA General Terms and Conditions, which is cited in the performance audit reviewed. In our review, the NEA’s General Terms incorporate the requirements of A-110. As such, A-110 requires that the grantee maintain appropriate financial management systems to include reporting of financial results, internal controls, cost allocations, and policies and procedures just to name a few.

In the performance audit, the audit report cites non-compliance with OMB Circular A-110 and NEA General Terms and Conditions. Specifically, the first audit finding cites that the grantee is not in compliance with OMB Circular A-110 financial management standards. To support this

conclusion, the audit report states that the auditor reviewed the grantee's general ledger detail, something which an experienced auditor would conclude to be significant to the compliance audit objective, based on the direct relationship between the general ledger detail reviewed, OMB Circular A-110 requirements, and the conclusion drawn – noncompliance.

Based on this premise, we believe that the compliance objective(s) is sufficiently significant in nature to warrant the assessment of evidence for the types of audit the NEA OIG performs. While, in the performance audit reviewed, the lack of an overall assessment of the collective evidence did not result in the use of insufficient or inappropriate evidence, the omission of the required assessment represents a lack of compliance with GAGAS.

**Recommendation:** Document an overall assessment of evidence, as required by GAGAS for all future audits.

#### **Views of Responsible Office:**

While we agree that there is no separate "summary document" for an overall assessment of evidence, we disagree that assessments of evidence are not summarized within the workpapers. As was noted in the finding, the objective of many of NEA OIG audits is to determine whether the organization's financial management system and recordkeeping complies with the requirements established by the US Office of Management and Budget (OMB) and NEA's General Terms. Recipients of Federal funding are required to maintain documentation separately for each award, therefore we review and assess each award separately. Evidence, findings and conclusions are documented in a program step designated to a specific award. The auditor determines whether the information (computer-processed or documentation) is accurate, allowable and adequate to support the grantee's final reports and award's intended purpose. This is accomplished through the review and testing of transactions and supporting documentation.

For the specific audit reviewed, the overall assessment of evidence was performed in the prior evaluation which subsequently resulted in the audit, based on the auditor's findings and conclusions. However, review of evidence subsequently obtained was also detailed in both the evaluation and the audit. In this specific audit the prior evaluation and audit should be reviewed collectively to evaluate the work performed in meeting GAGAS requirements.

It is our opinion that the assessment of evidence in each award, though separate, provides a detailed analysis to support the auditors' findings and conclusions to meet the GAGAS requirement, within the context of the audit objectives.

#### **Finding 5: Degree of Responsibility over IPA Work**

Monitoring of audit work performed by an Independent Public Accountant (IPA) is not an audit and not subject to the requirements of the Yellow Book. Nevertheless, procedures should be performed by the OIG to ensure the IPA's audit work is performed in accordance with appropriate standards.



GAO's Financial Audit Manual (FAM), sets forth standards for auditors using the work of others to include IPAs. As such, when the work of others is used, the auditor should clearly state the degree of responsibility the auditor is taking on the IPA report. The NEA OIG contracted the performance of the NEA's Financial Statement Audit to Leon Snead & Co, P.C. We reviewed the audit planning documentation and the audit file monitoring documentation associated with this contract. We were unable to determine the degree of responsibility that the NEA OIG accepted with regard to the work performed by the IPA. In response, the IG indicated that generally a transmittal letter to NEA management communicates the degree of responsibility that the OIG accepts over the IPA work. However, for the FY 2012 Financial Statement, the relevant language in the transmittal letter was inadvertently omitted.

**Recommendation:** Ensure that the documentation regarding degree of responsibility taken by the OIG over the work of IPAs is properly included in the OIG transmittal letter for future IPA Audits.

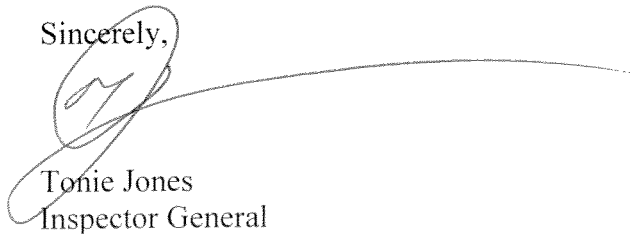
**Views of Responsible Office:**

We concur with this recommendation and have implemented procedures to ensure that documentation regarding degree of responsibility taken by NEA OIG over the work of IPAs is properly included in the OIG transmittal letter for future IPA audits.

Thank you for providing the draft report on the external quality control review of NEA OIG. We would like to thank you and your staff for the time and effort in conducting our peer review. If you have questions or need additional information, please feel free to contact me at (202) 682-5774.

I look forward to receiving the final review.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tonie Jones', is written over a long, thin horizontal line that extends across the page.

Tonie Jones  
Inspector General

cc: LeeAnn Murphy, Deputy Inspector General - Audits  
US Consumer Product Safety Commission