



FEDERAL ELECTION COMMISSION

WASHINGTON, D.C. 20463

Office of Inspector General

January 27, 2017

Ron Stith, Inspector General
National Endowment for the Arts
400 7th Street SW
Washington, DC 20506

Letter of Comment

To: Ron Stith, 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, 2016, and have issued our report thereon dated January 27, 2017, in which the NEA OIG received a rating of *pass with a deficiency*. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report.

Matter 1: Reporting Standards – Audit Reports Not Formally Distributed to Those Charged with Governance

The *Government Auditing Standards* (GAS) section 7.44 (Distributing Reports) states that Audit organizations should distribute audit reports to those charged with governance. For the audit selected for testing, the audit report was not formally distributed to the NEA Chairperson or the National Council on the Arts (NCA), which is the head of the agency. We were informed that the standard practice for distributing program audit reports during the period under review was to send the report to the Deputy Chair (who in turn would share the report with the Chairperson), to other applicable NEA officers, and all reports are posted to the NEA website. We also note that peer review reports are distributed to the NEA Chairperson but not forwarded to other oversight bodies. As OIG's are responsible for keeping oversight bodies informed of the nature, scope, and findings related to audits conducted, not submitting reports directly to those charged with governance could result in the oversight bodies not being kept abreast of results of audit activities in areas under their purview.

Recommendation – NEA OIG should ensure that all reports are distributed to the NEA Chairperson and the NCA. Also, a copy of the peer review report should be forwarded to the appropriate oversight bodies.

Views of Responsible Official
Concur.

Matter 2: Quality Control Assurance – Independent Review of an Audit Report was Not Evidenced (in one instance)

Per NEA OIG’s audit manual, section 804, all audit reports are independently reviewed by an auditor not associated with the audit. Based on discussions with the NEA OIG, their current standard practice requires the independent reviewer to save a copy of the indexed report including the independent reviewer’s comments in the AutoAudit (NEA’s electronic work paper system) project file. Also, the report is electronically approved in AutoAudit by the independent reviewer. However, for the audit selected for testing, there was no evidence that the indexed audit report was independently reviewed. To determine if this was a compliance issue, we randomly selected two additional audit reports issued during the peer review period noting that proper evidence was included in the file to support independent referencing. We conclude that the quality control procedures related to independent referencing is normally performed and the audit selected for testing was an isolated incident.

Recommendation – NEA OIG should ensure that a copy of the indexed audit report reviewed by the independent referencer is maintained in the applicable project file.

Views of Responsible Official
Concur.

In addition to reviewing its system of quality control to ensure adherence with GAS, we applied certain limited procedures in accordance with guidance established by the Council of the Inspectors General on Integrity and Efficiency related to NEA OIG’s monitoring of audit work performed by Independent Public Accountants (IPA) under contract where the IPA served as the principal auditor.

Matter 3. IPA Monitoring – Documentation of Monitoring Procedures

GAO's Financial Audit Manual (FAM) sets forth standards for auditors using the work of others, including IPAs. Monitoring audit work performed by an IPA is not an audit and not subject to the requirements of the GAS. Nevertheless, proper supporting documentation should be maintained by the OIG to evidence adequate monitoring procedures where performed in accordance with appropriate standards as well as internal policies and procedures.

To ensure quality control standards are met, the FAM includes a financial statement audit checklist (FAM 1003) to be completed by the IPA performing the audit and a monitoring checklist (FAM 650 B) for the audit organization responsible for monitoring the financial statement audit, which is optional. Also, NEA’s audit policy

and procedures manual states, "To ensure that monitoring of the IPA's work has been properly accomplished, the COTR will complete the Certification and Checklist for OIG Monitoring of Financial Statement Audits." However, during the review of the NEA OIG's monitoring documentation for the contracted audit of the NEA Fiscal Year 2015 financial statements, we identified that the Contracting Office Representative (COR, formally known as the COTR) did not complete the FAM 605 B or similar monitoring checklist. Instead, the FAM 1003, which was completed by the IPA, was used to evidence monitoring performed by placing a check mark next to each checklist item that was reviewed/verified.

We compared the FAM 1003 to the FAM 650 B noting both checklist generally cover the same quality control steps to ensure compliance with appropriate standards. The only exception is that the FAM 650 B includes general standards related to independence and qualifications of the IPAs. Based on the review of the checklist completed, and other supporting documentation, we conclude that the monitoring procedures performed were adequate and operating effectively.

Recommendation— NEA OIG should either comply with their written monitoring procedure and use the FAM 650 B or a similar checklist, or revise the audit manual to reflect the current practice.

Views of Responsible Official

Concur.



Lynne A. McFarland
Inspector General
Federal Election Commission