

UNITED STATES GOVERNMENT
National Labor Relations Board
Office of Inspector General



System Review Report
on the
National Endowment of the Arts
Office of Inspector General

September 12, 2022



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To: Ron Stith, Inspector General
National Endowment of the Arts

We reviewed the system of quality control for the audit organization of the National Endowment of the Arts OIG (NEA OIG) in effect for the year ended March 31, 2022. A system of quality control encompasses NEA OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming in all material respects with Government Auditing Standards and applicable legal and regulatory requirements. The elements of quality control are described in Government Auditing Standards.

In our opinion, except for the deficiencies described below, the system of quality control for the audit organization of NEA OIG in effect for the year ended March 31, 2022, has been suitably designed and complied with to provide NEA OIG with reasonable assurance of performing and reporting in conformity in all material respects with applicable professional standards and applicable legal and regulatory requirements.

Audit organizations can receive a rating of pass, pass with deficiencies, or fail. NEA OIG has received an External Peer Review rating of pass with deficiencies.

Descriptions of Deficiencies

The Council of Inspectors General On Integrity and Efficiency (CIGIE) guidance for conducting peer reviews of audit organizations defines a *deficiency* as:

[O]ne or more findings that the review team has concluded—due to the nature, causes, pattern or pervasiveness, including the relative importance of the finding to the OIG audit organization's system of quality control taken as a whole—could create a situation in which the OIG would not have reasonable assurance of performing and/or reporting in conformity with applicable professional standards in one or more important respects.

We noted the following two deficiencies during our review:

1. AUDITS IDENTIFIED AS FINANCIAL DESK REVIEWS DO NOT MEET GAGAS REQUIREMENTS

During our review, we identified three engagement reports that were categorized as "Special Reviews and Evaluations" on the NEA OIG's Web site. One of the three

reports, National Innovation Collaborative, FDR-21-01, included an examination generally accepted government auditing standards (GAGAS) statement. The other two did not include a GAGAS statement. Because the National Innovation Collaborative, FDR-21-01, report included a GAGAS statement, we selected it as one of the three engagements to review.

Because the report included the examination GAGAS statement, we first reviewed National Innovation Collaborative, FDR-21-01, using Appendix D1, the peer review guide's appendix for examination engagements. After the NEA OIG stated that the engagement was a performance audit and not an examination, we conducted a second review using the performance audit standards in Appendix E, the standards for a performance audit. The following are deficiencies that we found:

Unconditional GAGAS Requirements

A written audit plan is an unconditional requirement for a GAGAS engagement. Section 8.33 states that auditors “must prepare a written audit plan for each audit” and that the auditors “should update the plan, as necessary, to reflect any significant changes to the plan made during the audit.”

GAGAS uses the term “must” to indicate an unconditional requirement and states that “[a]uditors and audit organizations must comply with an unconditional requirement in all cases where such requirement is relevant.” GAGAS 2.02a. A written audit plan is relevant to every audit and is necessary to ensure that the audit is properly supervised and to ensure that auditor completes all steps necessary to meet the objectives of the engagement.

Although the National Innovation Collaborative, FDR-21-01, engagement had a workpaper for the objective, scope, and methodology, that workpaper was not of sufficient detail to constitute an audit plan. Also, the auditor did not use the NEA OIG's audit plan template. Based upon our review of the entirety of the workpapers provided by the NEA OIG, we determined that the workpapers did not provide documentation to demonstrate that there was sufficient planning to address relevant audit risks or to ensure that the auditor obtained sufficient and appropriate evidence. See GAGAS 8.35.

Presumptively Mandatory GAGAS Requirements

GAGAS uses the term “should” to indicate a presumptively mandatory requirement. GAGAS 202b. We found no documentation that the following relevant presumptively mandatory requirements for conducting a GAGAS engagement were performed:

- *Independence Considerations:* GAGAS 3.27 – 3.31 auditors should apply a conceptual framework approach to address independence for the audit organization, engagement team, and individual auditors;

- *Risk Assessment:* GAGAS 8.05 in planning the audit, auditors should assess significance and audit risk. Auditors should apply these assessments to establish the scope and methodology for addressing the audit objectives;
- *Inquiry on Investigations or Legal Proceedings:* GAGAS 8.27 auditors should inquire of management of the audited entity whether any investigations or legal proceedings significant to the audit objectives have been initiated or are in process with respect to the period under audit and should evaluate the effect of initiated or in-process investigations or legal proceedings on the current audit;
- *Inquiry on Previous Engagement:* GAGAS 8.30 auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audit objectives. When planning the audit, auditors should ask management of the audited entity to identify previous engagements or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives;
- *Assessment of Internal Controls:* GAGAS 8.39 auditors should determine and document whether internal control is significant to the audit objectives. The report noted internal control deficiencies when making recommendations for corrective action and the auditors should have complied with GAGAS 8.40, 8.49, and 8.54, regarding understanding, assessment, and deficiency consideration. The auditors should also have complied with the GAGAS 8.59 requirement to determine whether it is necessary to evaluate information systems controls;
- *Assess Fraud Risk:* GAGAS 8.71 auditors should assess the risk of fraud occurring that is significant within the context of the audit objectives;
- *Evidence:* GAGAS 8.93 – 8.94 when auditors use information provided by officials of the audited entity as part of their evidence, they should determine what the officials of the audited entity or other auditors did to obtain assurance over the reliability of the information and auditors should evaluate the objectivity, credibility, and reliability of testimonial evidence; and
- *Overall Assessment of Evidence:* GAGAS 8.108 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 performed to conclude on the validity and reliability of specific evidence.

Except in limited circumstances, GAGAS 2.02b requires that “[a]uditors and audit organizations must comply with a presumptively mandatory requirement in all cases where such a requirement is relevant.” When an audit organization determines it is

necessary to depart from a presumptively mandatory requirement, the auditor should perform alternate procedures to achieve the intent of the requirement and document its justification and how the alternate procedures were sufficient. GAGAS 2.03 and 2.04.

The National Innovation Collaborative, FDR-21-01, report included recommendations related to establishing and documenting procedures; as such, the internal control GAGAS requirements were relevant to the engagement. The workpapers showed that NEA OIG auditors used evidence provided by the auditee and reviewed payments made by the NEA to the auditee; therefore, the GAGAS requirements related to evidence, the overall assessment of evidence, and assessing fraud were also relevant. We are unaware of any circumstances that would render independence; a risk assessment; or asking about investigations, legal proceedings, or prior engagements, not relevant.

In a workpaper identified as *Initiation, Objectives, Scope, Methodology* the auditor noted that the review will not be conducted in accordance with “Yellow Book performance audit requirements,” but that the auditor would follow “Yellow Book” guidance where possible. The workpaper stated that they would ensure sufficient evidence is obtained to have a reasonable basis for the findings and conclusions, but that they would not perform risk assessments or reviews of internal controls. We found no other documentation of departure from GAGAS or any justifications for the above departures or documentation of alternate procedures. The statement in the *Initiation, Objectives, Scope, Methodology* is not sufficient to meet GAGAS requirement for a justification or alternate procedure for departures from GAGAS.

GAGAS Statement

The report included an unmodified examination GAGAS statement. NEA OIG acknowledged that the engagement was a performance audit, and that the examination GAGAS statement was used in error. Given that acknowledgment, we determined that the use of the unmodified examination GAGAS statement did not comply with GAGAS 9.03. Additionally, the GAGAS statement was not modified, as required by GAGAS 9.05, to address the known noncompliance with GAGAS requirements related to risk assessments and internal control assessments.

Other Special Reviews and Evaluations’ GAGAS Statements

We determined that two other engagements, conducted during the peer review scope period and identified as *Financial Desk Reviews*, were audits. That determination was based upon our review of the reports for Association of Writers & Writing Programs, FDR-21-02, and Gray Area Foundation for the Arts, FDR-22-01, and the acknowledgement by NEA OIG in a memorandum provided to the peer review team, dated July 22, 2022, stating:

During the peer review period (April 1, 2019 – March 31, 2022), we conducted financial desk reviews for the National Innovation Collaborative (Collaborative), Association for Writers & Writing

Programs (AWP), and Gray Area Foundation for the Arts (Gray Area). We conducted these reviews in accordance with the U.S. Government Accountability Office Government Auditing Standards (2018 Revision) (GAGAS); however, we did not adhere to reporting requirement GAGAS, Section 9.03.

As stated in the memorandum, two of the reports did not include GAGAS statements. Because the engagements were performance audits, those reports do not meet the GAGAS 9.03 requirement that “[w]hen auditors comply with all applicable GAGAS requirements, they should use the following language, which represents an unmodified GAGAS compliance statement, in the audit report to indicate that they conducted the audit in accordance with GAGAS.”

Overall Special Reviews and Evaluations

The deviations from GAGAS are too numerous and significant to determine that they would not impact the quality of the National Innovation Collaborative, FDR-21-01, audit. As the audit documentation currently exists, we cannot conclude that the National Innovation Collaborative, FDR-21-01, audit was conducted in conformance with GAGAS. Additionally, given the nature of the findings and that the workpapers evidence that all levels of the OIG audit organization were involved in the audit field work or report issuance process, we determined that the nature findings are of sufficient importance to the NEA OIG’s audit system of quality control to represent a deficiency.

The methodology for the peer review is that we sample engagements rather than reviewing each one individually. Based on our testing, we then form an opinion for the entirety of the audit organization.

NEA OIG staff stated that the *Financial Desk Reviews* were engagements that were completed by auditors to address Hotline complaints. From our review of workpapers and reports, we observed that the auditors engaged in an audit process and produced reports that, for all intents and purposes, are indistinguishable from NEA OIG’s other performance audits. The engagements were reported in the Semiannual Report in the Audit and Related Activities section and identified as *Financial Desk Reviews*, as compared to the performance audits and the engagements performed by the IPAs. The NEA OIG acknowledged that the engagements identified as *Financial Desk Reviews* are audits.

Because the NEA OIG categorized the *Financial Desk Reviews* audits as a subset of audit work and concurs that the engagements are audits, in light of the peer review methodology, we determined that it is appropriate to consider our review of the National Innovation Collaborative, FDR-21-01, audit as representative of that audit work. Therefore, we determined that it is appropriate to extend our findings regarding the noncompliance with GAGAS for National Innovative Collaboration, FDR-21-01, to the audits titled Association of Writers & Writing Programs, FDR-21-02, and Gray Area Foundation for the Arts, FDR-22-01. We do not, however, extend this deficiency to the

NEA OIG other audit work that is clearly identified as an “audit” and numbered in accordance with NEA OIG’s standard audit number convention – OIG-[Year]-[Report #].

Recommendation: (1) The NEA OIG remove the three audit reports, National Innovation Collaborative, FDR-21-01; Association of Writers & Writing Programs, FDR-21-02; and Gray Area Foundation for the Arts, FDR-22-01, from its Web site and take appropriate steps to notify the auditees. NEA OIG should also engage in a process to determine if the GAGAS deficiencies can be remedied prior to reissuing the reports.

2. THE ANNUAL QUALITY ASSURANCE REVIEW PROCESS IS NOT DESIGNED OR IMPLEMENTED IN A MANNER THAT PROVIDES THE NEA OIG WITH REASONABLE ASSURANCE THAT THE OIG AND ITS PERSONNEL COMPLY WITH GAGAS

The NEA OIG did not complete an Internal Quality Assurance Review for Calendar Year (CY) 2019. The NEA OIG was unaware that the Quality Assurance Review was not conducted until we requested details of the review. In addition, the CY 2020 and CY 2021 Internal Quality Assurance reviews did not include analysis or documentation showing how conclusions were reached, nor were there cross references to the appropriate audit workpapers supporting the overall conclusions of the reviews.

The memorandum documenting the review for CY 2021 states that the Assistant Inspector General for Audits reviewed a list of audits that included the engagement National Innovation Collaborative, FDR-21-01. The memorandum also states that the review found that the audits were performed in accordance with GAGAS, but they identified an opportunity for improvement related to updating the OIG Policy Manual.

The checklist for the quality reviews lists six items that are reviewed. Those items include confirming that the Audit Administrative Checklist was referenced and reviewing the workpapers to determine if an audit plan and workpapers were approved by the supervisor. An Audit Administrative Checklist for the National Innovation Collaborative, FDR-21-01, engagement was not provided to the peer review team. As noted above, there was no individual audit plan, and the auditor did not use the template audit plan as is the documented NEA OIG practice. The checklist, however, states that for all the engagements “ALL REQUIREMENTS WERE MET,” (emphasis in the original).

GAGAS 5.02 states that “[a]n audit organization conducting engagements in accordance with GAGAS must establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements.” The guidance provided in CIGIE’s *Quality Standards for Federal Offices of Inspector General* states that each organization should prepare appropriate documentation to demonstrate compliance with its policies and procedures for its system of quality assurance. Additionally, an OIG’s internal quality review process should have appropriate internal controls.

Overall, the NEA OIG's review process is very superficial and lacks supporting documentation to demonstrate compliance with its policies and procedures, and it appears to be designed in a manner that is unlikely to identify significant deviations from GAGAS. Additionally, the NEA OIG's quality assurance review lacks the internal control feature of segregation of duties. The annual quality review is conducted by the AIGA who is also responsible for the supervisory review of the engagement workpapers – in large part the AIGA is reviewing their own supervision of the engagements. The National Innovation Collaborative, FDR-21-01, is an example of this issue. The AIGA who conducted the quality review in CY 2021 also supervised the engagement. Considering the results of the Appendix E review, it is apparent that the engagement workpapers were not properly reviewed during the annual quality assessment review.

Given the lack of details in the documentation provided by NEA OIG for its quality review process, the lack of segregation of duties, and the unnoticed and unremedied failure to perform the review for CY 2019, we determined that the NEA Inspector General cannot rely on the current process to ensure that his office is issuing engagement reports that meet GAGAS standards. As such, we determined that the NEA OIG lacks a system of internal quality assurance.

These findings represent a deficiency in NEA OIG's audit system of quality control because the findings are pervasive, in that they span the 3-year scope period, and they are of a high importance, in that a properly designed and implemented internal quality assurance review is a key component to an organization's audit system of quality control.

Recommendation: (2) The NEA OIG develop and implement a process to complete and document a quality review process that will enable the NEA Inspector General to have a reasonable assurance that the NEA OIG's audit program is completing engagements in conformance with GAGAS.

Enclosure 1 to this report includes the response by NEA OIG to the above deficiencies. The comments generally stated that the NEA OIG agreed with the findings and recommendations.

Monitoring of GAGAS Engagements Performed by Independent Public Accountants

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 conducted in accordance with GAGAS (GAGAS engagements) by Independent Public Accountants (IPAs) under contract where the IPA served as the auditor. It should be noted that monitoring of GAGAS 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; accordingly, we do not express an opinion on NEA OIG's monitoring of work performed by IPAs.

Letter of Comment

We have also issued a letter dated September 12, 2022, that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

Basis of Opinion

Our review was conducted in accordance with Government Auditing Standards and the CIGIE Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General.

Prior to concluding the peer 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.

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 NEA OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected GAGAS engagements and administrative files to test for conformity with professional standards and compliance with NEA OIG's system of quality control. The GAGAS engagements selected represented a reasonable cross-section of the NEA OIG audit organization, with an emphasis on higher-risk GAGAS engagements.

In performing our review, we obtained an understanding of the system of quality control for the NEA OIG audit organization. In addition, we tested compliance with NEA OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of NEA OIG's policies and procedures on selected GAGAS 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.

We believe that the procedures we performed provide a reasonable basis for our opinion. Enclosure 2 to this report identifies the GAGAS engagements we reviewed.

Responsibilities and Limitation

The NEA OIG is responsible for establishing and maintaining a system of quality control designed to provide NEA OIG with reasonable assurance that the organization and its personnel comply in all material respects with professional standards and applicable legal and regulatory requirements. Our responsibility is to express an opinion on the design of the system of quality control and NEA OIG's compliance based on our review.

There are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and may 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.

A handwritten signature in black ink, appearing to read "David Berry". The signature is stylized and cursive.

David Berry, Inspector General

Enclosures

NATIONAL ENDOWMENT for the ARTS

arts.gov

September 12, 2022

David P. Berry
Inspector General
National Labor Relations Board
1015 Half Street, SE
Washington, DC 20570

Mr. Berry,

We 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) in effect for the year ended March 31, 2022. We are pleased that, except for the deficiencies described in the peer review report, you determined that our system of quality control was suitably designed and that our adherence to this system provided reasonable assurance of performing and reporting in conformity in all material respects with applicable professional standards and applicable legal and regulatory requirements. Your review identified two deficiencies, resulting in an opinion that our audit quality control system passed with deficiencies. Following are our responses to those findings and recommendations.

Finding 1:

Audits identified as financial desk reviews do not meet GAGAS requirements.

Recommendation 1:

The NEA OIG remove the three audit reports, National Innovation Collaborative, FDR-21-01; Association of Writers & Writing Programs, FDR-21-02; and Gray Area Foundation for the Arts, FDR-22-01, from its Web site and take appropriate steps to notify the auditees. NEA OIG should also engage in a process to determine if the GAGAS deficiencies can be remedied prior to reissuing the reports.

Response:

We concur with this finding and recommendations.

Finding 2:

The annual quality assurance review process is not designed or implemented in a manner that provides the NEA OIG with reasonable assurance that the OIG and its personnel comply with GAGAS.

Recommendation 2:

The NEA OIG develop and implement a process to complete and document a quality review process that will enable the NEA Inspector General to have a reasonable assurance that the NEA OIG's audit program is completing engagement in conformance with GAGAS.

Response:

We concur with this finding and recommendation.

Thank you for providing the draft report on the external peer review of the NEA OIG. Also, thank you and your staff for the time and effort in conducting our peer review and providing recommendations designed to strengthen our quality control system. If you have any questions or need additional information, please feel free to contact me at stithr@arts.gov.

Best regards,

Ron Stith

Ron Stith
Inspector General

Scope and Methodology

We tested compliance with National Endowment of the Arts (NEA) Office of Inspector General (OIG) audit organization's system of quality control to the extent we considered appropriate. These tests included a review of 3 of 26 engagement reports conducted in accordance with generally accepted government auditing standards (GAGAS engagement) issued from April 1, 2019, through March 31, 2022. We reviewed two reports posted on the NEA OIG's Web site list in the audit section under the heading *Special Reviews and Evaluations*. We also reviewed the internal quality control reviews performed by NEA OIG.

In addition, we reviewed NEA OIG's monitoring of GAGAS engagements performed by IPAs where the IPA served as the auditor from April 1, 2019, through March 31, 2022. During the period, NEA OIG contracted for the audit of its agency's Fiscal Year 2021 financial statements. NEA OIG also contracted for other GAGAS engagements that were performed in accordance with Government Auditing Standards.

Reviewed GAGAS Engagements Performed by NEA OIG

| Report No. | Report Date | Report Title |
|------------|-------------|--|
| FDR-21-01 | 12/10/2020 | Financial Desk Review of Selected Awards to National Innovation Collaborative |
| OIG-22-01 | 10/26/2021 | Performance Audit Report on Selected Awards to Florida Department of State, Division of Cultural Affairs |
| OIG-22-02 | 3/15/2022 | Performance Audit Report on Selected Awards to South Carolina Arts Commission, Columbia, SC |

Reviewed Web Site Posted Reports for Engagements Performed by NEA OIG

| Report No. | Report Date | Report Title |
|------------|-------------|--|
| FDR-21-02 | 2/24/2021 | Association of Writers & Writing Programs Riverdale Park, Maryland |
| FDR-22-01 | 12/22/2021 | Gray Area Foundation for the Arts, Inc San Francisco, California |

Reviewed Monitoring Files of NEA OIG for Contracted GAGAS Engagements

| Report No. | Report Date | Report Title |
|------------|-------------|---|
| A-22-02 | 10/29/2021 | Report on the National Endowment for the Arts' Compliance with the Digital Accountability Transparency Act of 2014 for Fourth Quarter, Fiscal Year 2020 |
| A-22-03 | 11/10/2021 | Fiscal Year 2021 Audit of the National Endowment for the Arts Financial Statements |