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Office of General Counsel  
National Endowment for the Arts  
400 7th Street, SW  
Washington, DC 20506  
Fax: 202/682-5572  
[foia@arts.gov](mailto:foia@arts.gov)

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From: FOIA  
Date: Jan 23, 2017 3:01:17 PM  
Subject: RE: Freedom of Information Act request for NEA OIG Records

Dear Sir:

This e-mail responds to your request for records under the Freedom of Information Act (FOIA), 5 U.S.C. §552. Your request has been assigned file number F17-023. In your below e-mail, you requested: digital/electronic copy of the NEA OIG Audit Manual.

Attached are the responsive documents for your FOIA request with no redactions.

The National Endowment for the Arts is governed by the provisions of the National Foundation on the Arts and the Humanities Act, 20 U.S.C. 951 et seq., and the Freedom of Information Act with respect to the release of agency records. In accordance with the NEA's FOIA regulations, 45 C.F.R. 1100.5(b)(1), you may appeal the Agency's determination. Such an appeal must be made to the Chairman not less than 90 days after the date receipt of this e-mail, additional information about the appeal process can be found at FOIA| NEA .

If you would like to discuss our response before filing an appeal to attempt to resolve your dispute, you can contact our FOIA Public Liaison for assistance. If we are unable to resolve your FOIA dispute through our FOIA Public Liaison, the Office of Government Information Services (OGIS), the Federal FOIA Ombudsman office, offers mediation services to help resolve disputes between FOIA requesters and Federal agencies. The contact information for OGIS is:

Office of Government Information Services  
National Archives and Records Administration  
8601 Adelphi Road-OGIS  
College Park, MD 20740-6001  
[ogis@nara.gov](mailto:ogis@nara.gov)

Please contact me if you have any questions about this response.

Respectfully,  
Desiree Flippins  
FOIA Officer | Office of the General Counsel  
National Endowment for the Arts  
400 7th Street SW | Washington DC 20506

**AUDIT POLICY AND PROCEDURES MANUAL (rev. 7/2015)**

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**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

<b>Audit Policy and Procedures Manual Chapter 100 - General</b>	SECTION TITLE	
	OFFICE OF INSPECTOR GENERAL	
	EFFECTIVE DATE January 15, 2010	SECTION NUMBER 101

***POLICY***

*The Inspector General Act of 1978, as amended, establishes the responsibilities and duties of an IG. The authority for the Office of Inspector General (OIG) within the National Endowment for the Arts (NEA) is prescribed in Public Law 95-452, as amended by Title I of the Inspector General Act Amendments of 1988, Public Law 100-504. The Act was further amended by the Inspector General Reform Act of 2008, “to enhance the independence of the Inspectors General, to create a Council of the Inspectors General on Integrity and Efficiency, and for other purposes.” The OIG will conduct its work in accordance with the authority and directions contained in the Act, as amended.*

***PROCEDURES AND RESPONSIBILITIES***

**Provisions of the Inspector General Act of 1988, as amended**

The Inspector General is the head of the OIG and is responsible for the overall direction and operation of the office. The Inspector General reports to, and is under the general supervision of the NEA Chairman. The Chairman shall not prevent or prohibit the Inspector General from initiating, carrying out, or completing any audit or investigation, or from issuing any subpoena during the course of any audit or investigation.

**Duties and Responsibilities of the Inspector General**

The Inspector General shall:

- Provide policy direction for, and conduct, supervise, and coordinate audits (including surveys and other reviews that are conducted in accordance with applicable government standards) and investigations relating to the programs and operations of the NEA;
- Review existing and proposed legislation and regulations to determine their impact on economy and efficiency in the administration of, and the prevention and detection of fraud, waste and abuse in, the programs and operations of the NEA;

- Recommend policies for, and conduct, supervise, or coordinate other activities carried out or financed by the NEA for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud, waste and abuse in, those programs and operations;
- Recommend policies for, and conduct, supervise, or coordinate activities between NEA and other Federal agencies, State, and local government agencies, and nongovernmental entities with respect to all matters relating to the promotion of economy and efficiency in the administration of, or the prevention and detection of fraud and abuse in programs and operations administered or financed by NEA, or the identification and prosecution of participants committing such fraud or abuse;
- Keep the NEA Chairman and the Congress fully and currently informed concerning fraud and other serious problems, abuses, and deficiencies relating to the administration of programs and operations administered or financed by NEA, or the identification and prosecution of participants committing such fraud or abuse;
- Comply with standards established by the Comptroller General of the United States for audits of Federal establishments, organizations, programs, activities and functions (the Government Auditing Standards);
- Give particular regard to the activities of the Comptroller General of the United States with a view toward avoiding duplication and ensuring effective coordination and cooperation;
- Establish guidelines for determining when it shall be appropriate to use non-Federal auditors, and give due regard to assuring that any work performed by non-Federal auditors complies with the Comptroller General's standards; and
- Report expeditiously to the Attorney General whenever the Inspector General has reasonable grounds to believe there has been a violation of Federal criminal law.

### **Authority of the Inspector General**

To carry out these responsibilities, the Congress has given the Inspector General:

- Access to all records, reports, audits, reviews, documents, papers, recommendations, or other material available to the NEA which relate to programs and operations of the Endowment;
- Authority to make such investigations and reviews that are, in the judgment of the Inspector General, necessary or desirable;
- Authority to request information or assistance from any Federal, state or local government agency or unit thereof, as may be necessary for carrying out the duties and responsibilities of the Act;



- Authority to issue subpoenas of the production of all information, documents, reports, answers, records, accounts, papers, and other data and documentary evidence necessary in the performance of the duties specific above, which subpoena, in the case of refusal to obey, shall be enforceable by order of any appropriate United States district court. Procedures other than subpoenas shall be used to obtain documents and information from Federal agencies;
- Authority to administer and take an oath, affirmation or affidavit from any person when necessary;
- Direct and prompt access to the Chairman;
- Authority to select, appoint and employ such officers and employees as may be necessary for carrying out the functions, powers and duties of the OIG; and
- Within the limits of the established budget, authority to contract for audits, studies, analyses and other services.

## **DELEGATIONS**

The Inspector General may delegate to any officer or employee of the OIG the duties and authority necessary to comply with the Inspector General Act, as amended, and to conduct the operations of the office. The Inspector General makes the following delegations.

### **Duties and Authority of the Assistant Inspector General (AIG) or Lead Auditor**

The AIG/Lead Auditor shall:

- Assist in the development and implementation of NEA-wide audit policies, objectives, procedures and instructions that are applied to audits and special reviews of NEA grantees and contractors (see Section 201) and all the internal operations and activities of the agency.
- Develop and utilize audit programs, evaluate and write reports on audits and special reviews of grantees/contractors and the NEA's internal operations (including information security and technology) and activities in order to determine financial integrity and internal controls, compliance with NEA and other Federal requirements, economy and efficiency of operations, and program results.
- Evaluate corrective actions taken by the NEA grantees and contractors in response to audit recommendations and prepare Semiannual Reports to the Congress on audit follow-up.

- Review and evaluate cognizant/oversight audit agency reports. Draft reports to NEA officials regarding findings and recommendations.
- Interpret agency policies and provisions to the development of audit/special review procedures, instructions, work plans and schedules. Expand or contract audit/special review programs as a result of initial findings.
- Review and assess proposed Office of Management and Budget guidance and other regulations with audit implications. Develop and provide appropriate comments for NEA management.
- Provide grantees technical assistance in the area of technical compliance and internal controls.

## **LINE OF SUCCESSION**

Whenever the Inspector General is unable for any reason to perform assigned duties, he/she may designate and authorize an individual to serve on behalf of the Inspector General. The designated individual will serve as *"Acting Inspector General."*

The following line of succession designates individuals who will serve as *"Acting Inspector General"* and the order in which they will assume that authority:

- Assistant Inspector General;
- Senior Auditor or auditor (by date of highest grade if more than one) on audit or operations review matters;
- Other (as designated by the Inspector General).

**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

Audit Policy and Procedures Manual Chapter 100 – General	SECTION TITLE	
	ORGANIZATION CHARTS	
	EFFECTIVE DATE January 16, 2012	SECTION NUMBER 102

***POLICY***

*The Inspector General Act Amendments of 1988, as amended, provide that the Inspector General is to report directly to the head of the NEA.*

*The Inspector General will establish an organizational structure and supervise the functions and activities of the OIG in accordance with that structure.*

***PROCEDURES AND RESPONSIBILITIES***

The Inspector General reports to, and is under the general supervision of the Chairman and the National Council on the Arts. The Inspector General's placement in the NEA organization is depicted in Attachment 102-A, Organization Chart, National Endowment for the Arts. Based on Section 955(b) of the Arts Endowment's authorizing statute,

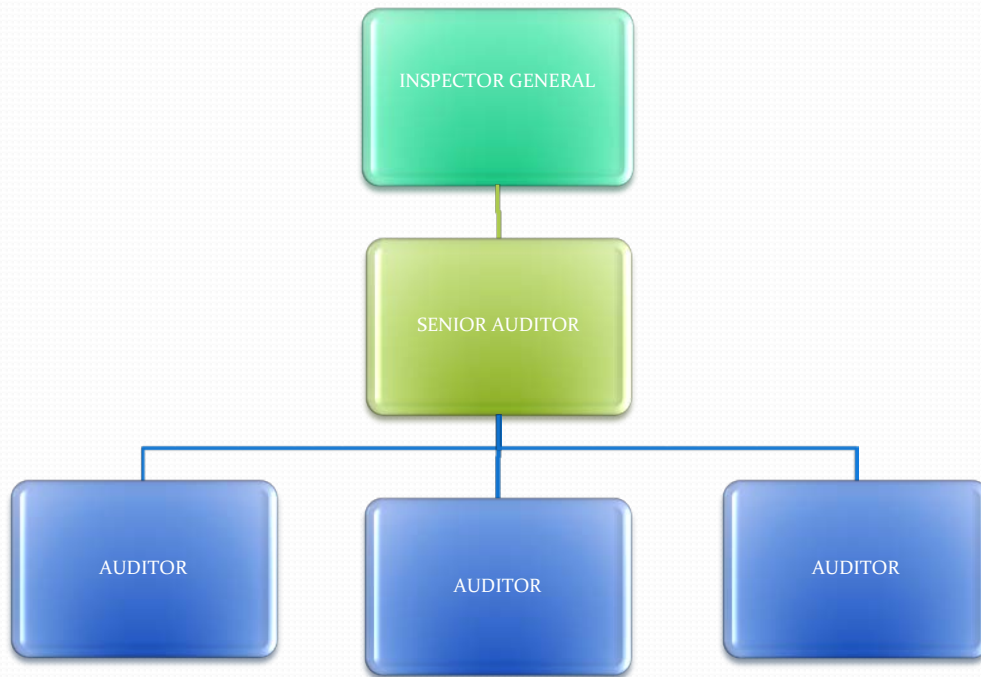
- (1) The Council shall be composed of members as follows:
  - (A) The Chairperson of the National Endowment for the Arts, who shall be the chairperson of the Council.

Therefore, the Chairman is the point-of-contact for general supervision and reporting purposes.

The line of authority, reporting responsibilities, titles and positions of officers and employees in the OIG are depicted in Attachment 102-B, Organization Chart, Office of Inspector General.

See: <http://arts.gov/open> (*NEA Open Government Webpage under Additional Reports & Information – Organization Chart*).

## NATIONAL ENDOWMENT FOR THE ARTS OFFICE OF INSPECTOR GENERAL



**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

<b>Audit Policy and Procedures Manual Chapter 100 - General</b>	SECTION TITLE	
	ACCESS TO RECORDS	
	EFFECTIVE DATE June 15, 2015	SECTION NUMBER 103

***POLICY***

*The Inspector General and representatives of the Inspector General are authorized access to all records, including reports, audits, reviews, documents, papers, recommendations, or other material relating to NEA programs and operations. If access to records is denied, the Inspector General is authorized to subpoena the records.*

***PROCEDURES AND RESPONSIBILITIES***

The authority to access and subpoena records is prescribed by Public Law 95-452, as amended by Title I of the Inspector General Act Amendments of 1988, Public Law 100-504. The Act was further amended to enhance the Inspector access to *all records which relate to programs and operations with respect to which that Inspector General has responsibility.*

Any difficulty in accessing records should be reported through supervisory channels to the Inspector General. The Inspector General will determine the appropriate course of action on a case-by-case basis.

The first course of action for resolving access problems should be at the working level.

Assuming that the access problem cannot be resolved expeditiously, the Inspector General will present the problem to the Chairman of the NEA for timely resolution.

If the problem remains unsolved or the resolution is unsatisfactory, the Inspector General may elect to report such an impairment of scope and independence in a *"seven day letter"* to the Congress.

**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

<b>Audit Policy and Procedures Manual Chapter 100 – General</b>	SECTION TITLE COORDINATION WITH OTHER AUDIT ORGANIZATIONS	
	EFFECTIVE DATE February 13, 2007	SECTION NUMBER 104

***POLICY***

*In accordance with the Inspector General Act, as amended, primary responsibility for auditing the NEA rests with the OIG. Audits by other organizations may be considered as fulfilling OIG audit responsibilities to the extent that the scope, quality, and timing of the audits meet the requirements of the OIG. These audits may be supplemented by OIG audit work to fulfill OIG audit requirements. The OIG will serve as the focal point for coordinating with other audit organizations.*

***PROCEDURES AND RESPONSIBILITIES***

**Liaison**

The OIG is responsible for performing liaison activities with other audit organizations.

**General Accounting Office (GAO)**

With respect to GAO audits and evaluations of NEA activities, the OIG is responsible for:

- Coordinating initial contacts between GAO and NEA activities, and tracking the progress of GAO's audit efforts;
- Reviewing GAO draft and final reports concerning NEA activities and advising the head of the NEA of significant findings;
- Monitoring the resolution of recommendations contained in GAO reports;
- Maintaining liaison, as necessary, with representatives of the Office of Management and Budget (OMB) and others regarding GAO reports.

The OIG's coordination and review of GAO reports and management's response is limited to an administrative and informational role. The OIG does not have any responsibility developing management's position on GAO reports or for approving management's response.

## **Other Inquiries**

In addition to GAO audits and evaluations, the OIG should be the initial contact for audit and investigative inquiries made by other audit and investigative organizations.



**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

Audit Policy and Procedures Manual Chapter 100 - General	SECTION TITLE	
	STANDARDS OF CONDUCT	
	EFFECTIVE DATE June 15, 2015	SECTION NUMBER 105

***POLICY***

*All OIG staff members will comply fully with all NEA standards of conduct policies and procedures.*

***PROCEDURES AND RESPONSIBILITIES***

The NEA General Counsel is responsible for acting as the Agency Ethics Official and for providing advice and rendering opinions with regard to matters and questions that arise concerning the standards of conduct. The NEA “Standards of Conduct for Employees,” ([located on the NEA Office of General Counsel SharePoint page](#)), provides interpretations of the various rules and laws concerning the standards of conduct applicable to federal employees. The Standards are applicable to all OIG employees and may be applicable to persons working in the OIG on a temporary or contract basis. Any employee having a question about the applicability of the Standards should consult with the General Counsel's office.

Each OIG employee is personally responsible for acquainting himself or herself with the contents of the most recent Standards, and for taking particular efforts to comply with the requirements of the rules and laws outlined in the Standards. OIG supervisors are responsible for acquainting temporary or contractor personnel working in the OIG with the contents of the Standards.

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**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

Audit Policy and Procedures Manual Chapter 200 – Audit/ Review Services	SECTION TITLE	
	TYPES OF AUDIT/REVIEW SERVICES	
	EFFECTIVE DATE January 1, 2015	SECTION NUMBER 201

***POLICY***

*The OIG will provide a full range of audit services to meet the needs of NEA management and to fulfill the requirements of the Inspector General Act, as amended. The audits will be performed in accordance with applicable Government Auditing Standards.*

**PROCEDURES AND RESPONSIBILITIES**

The OIG is responsible for performing audits to assist NEA management and other interested parties in determining whether NEA funds are handled properly in compliance with laws and regulations; and whether NEA is achieving the purposes for which programs were authorized and funded and is doing so economically and efficiently.

**CLASSIFICATION OF AUDITS**

In general, the audits performed by or at the direction of OIG may be classified either as financial audits, attestation engagements or performance audits. Financial audits include financial statement and other financial related audits. Attestation engagements include examinations, reviews and agreed-up procedures. Performance audits include economy and efficiency and program audits. **All audits shall be conducted according to GAGAS, which incorporates by reference the American Institute of Certified Public Accountants (AICPA) Statements on Auditing Standards (SAS).**

**FINANCIAL AUDITS**

**Financial Statement Audits.** During financial statement audits, the auditor is concerned with providing reasonable assurance about whether the financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles (GAAP) or in conformity with a comprehensive basis of accounting other than GAAP.

**Other Financial Related Audits.** Other objectives of financial audits provide for different levels of assurance and entail various scopes of work, which may include (1) providing special reports for specified elements, accounts, or items of a financial statement, (2) reviewing interim financial information, (3) reporting on the processing of transactions by service organizations, or (4) auditing compliance with regulations relating to federal award expenditures and other governmental financial assistance in conjunction with or as a byproduct of a financial statement audit. Financial related audits include audits of contracts, cooperative agreements, grants, financial systems (e.g., payroll systems), computer-based systems, financial information (e.g., statements of incurred costs), and fraud or other illegal acts that could affect an entity's financial position. Audits of internal control systems and controls over accounting, financial reporting, and transaction processing are also considered financial related.

## **ATTESTATION ENGAGEMENTS**

Attestation engagements concern examining, reviewing, or performing agreed-upon procedures on a subject matter or an assertion about a subject matter and reporting on the results. Subjects of attestation engagements could include reporting on (1) an entity's internal control over financial reporting, (2) an entity's compliance with requirements of specified laws, regulations, rules, contracts or grants, (3) the effectiveness of an entity's internal control over compliance with specified requirements, (4) the reliability of performance measures, or (5) specific procedures performed on a subject matter.

*Attestation engagements should only be permitted if there is reason to believe the subject matter is capable of evaluation against suitable criteria. GAGAS Standards for Attestation Engagements should be followed if attestation engagements are performed.*

## **PERFORMANCE AUDITS**

Performance audit entail an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria as well as assessments that provide a prospective focus or that synthesize information on best practices or cross-cutting issues. Performance audits include economy and efficiency and program audits.

**Economy and Efficiency Audits.** Economy and efficiency audits are made to determine (1) whether the entity is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently; (2) the causes of inefficiencies or uneconomical practices; and (3) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.

**Program Audits.** Program audits include determining (1) the extent to which the desired results or benefits established by the Congress or other authorizing body for a program are being achieved, (2) the effectiveness of program organizations, activities, or functions, and (3) whether the entity has complied with laws and regulations applicable to the program.

## **OIG AUDITS**

OIG audit work is characterized as either internal or external audits. Internal audits are independent reviews of the internal operations and activities of NEA. External audits are independent reviews of the records and claims of recipients of NEA grants, cooperative agreements and contracts.

**Internal Audits.** Internal audits are made to determine whether:

- NEA is maintaining effective control over and properly accounting for revenues, expenditures, assets, and liabilities in accordance with appropriate laws and regulations and generally accepted accounting principles.
- Management's policies, plans and procedures comply with applicable laws and regulations.
- Management's policies, plans and procedures are complied with internally.
- NEA is managing or utilizing its resources (such as personnel, property and space) in an economical and efficient manner.
- The desired program results or benefits established by Congress or other authorizing body are being achieved, and whether NEA has considered alternatives that might yield the desired results or benefits at a lower cost.

**External Audits.** External audits are made to determine whether:

- Grantees, cooperators and contractors are maintaining effective control over, and properly accounting for, grant or contract project-related revenues, expenditures, assets, and liabilities in accordance with generally accepted accounting principles and terms of the grant, cooperative or contract agreements.
- The total project costs (direct and indirect) claimed on financial reports submitted by the grantee, cooperator or contractor are reasonable, allocable and allowable under applicable cost principles and other terms of the grant, cooperative or contract agreements.

- The grantee, cooperator or contractor is complying with the requirements of applicable laws and regulations.
- The grantee, cooperator or contractor is managing or utilizing its resources in an economical and efficient manner.
- The activity proposed in the NEA approved grant, cooperative or contract application was actually accomplished and, if measurement standards (criteria) are available, to determine the effectiveness of programs financed by NEA.

## **OTHER OIG REVIEWS**

The OIG is responsible for performing special reviews of the financial management systems of NEA grantees, cooperators and contractors, for serving as the lead Federal auditor where NEA is the oversight or cognizant agency, for reviewing audit reports submitted by other oversight or cognizant auditors related to NEA grantees, cooperators and contractors, and for reviewing indirect cost proposals submitted by NEA grantees, cooperators and contractors.

**Special Reviews/Evaluations of Grantees, Cooperators and Contractors.** Special reviews/evaluations are made to determine expeditiously whether a grantee's, cooperator's or contractor's accounting system and management policies and controls are adequate to account for NEA grants, cooperative agreements and contracts in accordance with NEA requirements, applicable laws and regulations, and generally accepted accounting principles. Special reviews/evaluations are to be performed in accordance with CIGIE *Quality Standards for Inspection and Evaluation*. A Financial Management System & Compliance Evaluation (SCE) is an example of an evaluation. Evaluation of NEA's Compliance with Federal Information Systems Management Act of 2002 (FISMA) is an example of a special review.

**Oversight or Cognizant Audit Agency Reviews.** Where NEA is the oversight or cognizant audit agency for grants and cooperative agreements awarded under the provisions of OMB 2 CFR 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, (Uniform Guidance)*, the OIG is responsible for ensuring that the audit provisions for single audits are carried out by recipient agencies and their auditors, to include:

- Ensuring that audits are made in a timely manner and in accordance with the provisions of the Uniform Guidance.
- Making a desk review of audit reports submitted for oversight or cognizant agency processing to ensure that the auditors and the reports meet the requirements the Uniform Guidance.

- Making selective quality control reviews of the audit work performed by non-Federal auditors.
- Notifying recipients when audits by their non-Federal auditors do not meet the requirements of the Uniform Guidance so that the recipients may take appropriate corrective actions.
- Coordinating sanctions prescribed by the Uniform Guidance against non-Federal auditors who continue to perform substandard audit work.
- Ensuring the resolution of audit findings and recommendations that affect the programs of more than one agency.

Audit reports prepared in accordance with the provisions of the Uniform Guidance under the oversight or cognizance of other agencies are received by OIG and reviewed to determine whether the results of audit have either a past, current or potential effect on NEA grants and cooperative agreements, and what actions, if any, are required by NEA. The OIG advises NEA management of the results of its reviews.

### **Management Advisory or Quick Assessment Reviews**

The OIG may perform quick assessments, at the request of the Agency or initiated by the OIG or other sources, such as Hotline submissions, to determine if a grantee has the ability to manage federal funds in accordance with OMB guidance and General Terms. The report is generally a memorandum type letter report that because of its brevity and singular focus may not completely follow the requirements for audit/evaluation reports. If the report does not comply with GAGAS or Quality Standards for Inspection, the report must include the following statement:

“This assessment was not performed in accordance with federal auditing or evaluation standards.”

### **Indirect Cost Proposal Reviews.**

The OIG may provide technical assistance to NEA program and grants/contracting officials in evaluating indirect cost proposals.

### **MISCELLANEOUS SERVICES**

When requested by the Chairman or Senior Deputy Chairman, the OIG provides technical assistance to organizations eligible to apply for NEA assistance to help improve their financial management systems. The OIG may also provide NEA with analyses of the financial condition of specific organizations. Furthermore, the OIG provides technical assistance to both recipients and their independent auditors.

## **REFERENCES**

A listing of selected Office of Management and Budget (OMB), American Institute of Certified Public Accountants (AICPA), and General Accounting Office (GAO) references applicable to OIG audit services are provided at Attachment 201-A.



**REFERENCES****OMB GUIDANCE**

Effective December 26, 2014, the OMB Circulars which governed the management of Federal assistance awards was replaced with 2 CFR 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The guidance supersedes and streamlines OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102, A-133 and A-50. The guidance can be found at [http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200\\_main\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl). Furthermore, NEA's General Terms for Fiscal Year 2015 awards includes new guidance, incorporating 2 CFR 200.

**AICPA GUIDANCE**

AICPA Audit Guide, *Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards*

**GAO GUIDANCE**

*Government Auditing Standards* (the "Yellow Book") <http://www.gao.gov/yellowbook>

**OTHER REFERENCES**

CIGIE Quality Standards for Investigations

CIGIE Quality Standards for Federal Offices of Inspector General

CIGIE Quality Standards for Inspection and Evaluation

Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made*

Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations*

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OFFICE OF INSPECTOR GENERAL**

<b>Audit Policy and Procedures Manual Chapter 300 –Annual Audit Plan</b>	SECTION TITLE	
	AUDIT UNIVERSE	
	EFFECTIVE DATE January 1, 2015	SECTION NUMBER 301

***POLICY***

*The OIG shall develop and maintain an inventory of auditable entities (audit universe) that identifies and prioritizes the NEA organizations, programs, functions and activities that are subject to audit.*

*The audit universe shall serve as a principal source of information for the development of long-range and annual audit plans.*

***PROCEDURES AND RESPONSIBILITIES***

The AIG/Senior Auditor, in conjunction with the Inspector General, is responsible for overseeing the development and update of the audit universe to reflect audit coverage of the entities contained in the universe.

**DEVELOPING THE UNIVERSE**

Each NEA organization, program, function, and activity that the OIG has cognizance of is to be included in the universe, along with an estimate of the auditor days required to provide adequate coverage of each audit entity. The universe should be developed using available documentation such as NEA budget and funding documents, mission and function statements, organization charts, etc.

The organizations, programs, functions and activities included in the audit universe should be prioritized giving consideration to their relative importance and vulnerabilities. Factors such as the following should be considered when establishing priorities:

- OIG's Strategic Plan & Five Year Audit Plan (Attachment 302-A).
- Statutory and regulatory requirements.
- Funding levels.

- Adequacy of internal control systems as indicated by Financial Managers' Financial Integrity Act (FMFIA) vulnerability assessments and internal control reviews.
- Vulnerability to fraud, waste and abuse.
- Sensitivity to mission requirements, and to Presidential, Congressional, public and NEA management concerns.

The average frequency of audit coverage (audit cycle) of each organization, program, function and activity should be derived and included in the universe based on assigned priorities, the estimated total auditor days required to provide adequate coverage of each entity, and the current annual availability of audit resources or resources that the OIG can reasonably expect to become available.

### **UPDATING THE UNIVERSE**

The audit universe should be updated at least annually to reflect any changes in organizations, programs, functions or activities, and to reflect audit coverage of the entities included in the universe. The update should take place prior to the development of the annual audit plan. In addition to audits and special reviews conducted by the OIG, audits, reviews and inspections conducted by others should be considered for inclusion in the universe's record of accomplishments in order to preclude unnecessary duplication of work; for example:

- Audits and reviews conducted by the General Accounting Office.
- Audits performed by State and local government auditors and independent public accountants under the Uniform Guidance.
- Program reviews conducted by NEA managers.

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Audit Policy and Procedures Manual Chapter 300 –Annual Audit Plan	SECTION TITLE	
	ANNUAL AUDIT PLAN	
	EFFECTIVE DATE January 1, 2015	SECTION NUMBER 302

***POLICY***

*The OIG will develop an annual audit plan to identify the organizations, programs and activities selected for audit. The plan is to be developed in advance of the beginning of the new fiscal year.*

*As part of the planning process, NEA managers and program directors, and the OIG staff are to be solicited for audit suggestions.*

*The annual audit plan is a flexible document that is subject to change based on the need to react to high priority work that may occur during the year.*

*On an as needed basis, the audit plan is to be updated based on changing priorities.*

***PROCEDURES AND RESPONSIBILITIES***

The AIG/Senior Auditor, in conjunction with the Inspector General, is responsible for overseeing the development of the annual audit plan. The Inspector General is responsible for coordinating the plan with the NEA Chairman.

NEA managers and discipline directors will be contacted by the OIG for any audit suggestions. When the NEA managers and discipline directors respond to the OIG's annual request for audits or the managers/discipline directors make a separate request for an audit, their request should be forwarded through the appropriate deputy chairman to the OIG. Exceptions to this procedure will occur when the request is made to the OIG confidentially or anonymously. If the deputy chairman has any observations about the request, those observations will be put in writing and should accompany the request to the OIG.

When an audit request concerns a NEA recipient, the OIG will contact all affected NEA offices, prior to the conduct of the audit, in order to give the offices an opportunity to provide any relevant information. This may include the Discipline Offices, the General Counsel and the Grants & Contracts Office.

## **DEVELOPING THE ANNUAL AUDIT PLAN**

The annual audit plan will be developed giving consideration to the following:

- OIG's Strategic Plan & Five-Year Audit Plan (Attachment 302-A).
- Priorities and audit cycles established in the audit universe (Section 301).
- Legislative requirements.
- Concerns of the Chairman.
- Audit suggestions received from the Chairman, Deputy Chairman, program directors, and the heads of support and administrative offices.
- Audit suggestions from the OIG staff.

The timetable for developing the annual audit plan is flexible; however, the goal is to publish and distribute the plan on or before 1 October each year. Audit suggestions should be solicited and evaluated during the July to August time frame. A draft of the plan should be available for the Inspector General's review by late August to enable the plan to be communicated to the Chairman in early September. (Communicating the annual audit plan to the Chairman is a courtesy that does not affect the independence of the OIG planning process.)

## **CONTENT OF THE ANNUAL AUDIT PLAN**

The annual audit plan will identify the entities selected for audit and define for each:

- Specific reasons for the selection.
- The overall audit objective and scope.
- Anticipated benefits to be obtained from the audit.
- Auditor days needed to perform the audit.

## **UPDATING THE ANNUAL AUDIT PLAN**

The audit plan is a flexible document that is subject to change based on the need to react to high priority work that may occur during the year. As needed, the audit plan will be updated based on changing priorities.

**STRATEGIC PLANS**

NEA OIG Strategic Plans are posted on website:

<http://www.arts.gov/about/OIG/Reports-strategic-plans.html>

# **AUDIT POLICY AND PROCEDURES MANUAL**

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OFFICE OF INSPECTOR GENERAL**

<b>Audit Policy and Procedures Manual Chapter 400 – General Standards</b>	SECTION TITLE	
	COMPETENCE	
	EFFECTIVE DATE January 16, 2012	SECTION NUMBER 401

***POLICY***

*In accordance with Government Auditing Standards, the staff assigned to conduct the audit or attest engagement should collectively possess adequate professional competence needed to address the audit objectives and perform the work.*

*A continuing education and training program will be established to assist OIG staff members to maintain their professional competence. Auditors and internal specialists<sup>1</sup> responsible for planning, directing, conducting, or reporting on government audits or attestation engagements should complete, every 2 years, at least 80 hours of continuing professional education (CPE) that directly enhances the auditors' professional proficiency. At least 20 hours should be completed in any 1 year of the 2-year period. At least 24 of the 80 hours should be in subjects directly related to the government environment and to government auditing, or the specific or unique environment in which the audited entity operates.*

*Based on the above guidance, Continuing Professional Education (CPE) is tracked on a calendar year basis. The 2-calendar-year cycle for tracking training starts at the beginning of every even-numbered year and concludes at the end of every odd-numbered year. An example of a 2-year cycle would be from January 1, 2008 through December 31, 2009.*

***PROCEDURES AND RESPONSIBILITIES***

The Inspector General, or designee, is responsible for ensuring that audits or attestation engagements under GAGAS are conducted by personnel who collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on the assignment. To assist in maintaining the professional proficiency of the staff, OIG will establish and maintain a continuing professional education program.

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<sup>1</sup> GAGAS 3.81 states: "Because Internal specialists apply specialized knowledge in government audits, training in their areas of specialization qualify under the requirements for 24 hours of CPE directly related to government auditing, the government environment or the specific or unique environment in which the audited entity operations."

The OIG will also establish a process for recruitment, hiring, continuous development, evaluation and succession planning to maintain a competent workforce. The process should ensure that staff members possess the requisite qualifications and experience to assist the organization in maintaining a workforce that has the ability to meet the OIG's mission. The process for hiring and performance evaluation will be pursuant to the U.S. Office of Personnel Management, NEA Human Resource and pertinent federal guidelines.

## **KNOWLEDGE AND SKILLS**

The collective knowledge and skills needed by staff members conducting government audits include:

- Knowledge of GAGAS applicable to the type of work they are assigned and the education, skills, and experience to apply such knowledge to the work being performed.
- General knowledge of NEA organizations, programs, activities, and functions.
- The skills to communicate clearly and effectively, both orally and in writing.
- Skills appropriate for the audit work being performed.
- External specialists assisting in audit should be qualified and competent in their areas of specialization.
- Internal specialists consulting on a GAGAS audit, not involved in directing, performing or reporting, should be qualified and competent in their areas of specialization, however, they are not required to meet GAGAS CPE requirements

## **CONTINUING PROFESSIONAL EDUCATION**

The IG and individual staff members are jointly responsible for meeting the continuing professional education requirements established by the CPE Standard. The IG is responsible for identifying the education and training needs of individual staff members, providing education and training opportunities to the extent that resources permit, and for monitoring staff members' attainment of the required 80 hours of continuing education and training every 2 years. Individual staff members are responsible for seeking opportunities for continuing education and training, for successfully completing these activities, for ensuring that earned CPE credits are documented, and for monitoring their own progress toward the 80-hour credit requirement.

To be approved for CPE credit, training and educational events must be related to the knowledge and skills needed to maintain or improve an auditor's ability to conduct, supervise or manage audits or attestation engagements, or that enhances the auditor's knowledge of the entities audited. Attending meetings and seminars of professional organizations, speaking engagements, serving as an instructor, and publishing articles related to the auditor's professional duties might also qualify for CPE credits.

**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

Audit Policy and Procedures Manual Chapter 400 –General Standards	SECTION TITLE	
	INDEPENDENCE	
	EFFECTIVE DATE November 15, 2013	SECTION NUMBER 402

***POLICY***

*The Inspector General Act, as amended, requires the OIG to comply with Government Auditing Standards established by the Comptroller General of the United States. The Independence Standard established by the Comptroller General (Chapter 3) provides that:*

*In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be independent both in mind and appearance.*

The OIG audit staff and/or other personnel assigned will establish and maintain independence so that opinions, conclusions, judgments, and recommendations will be impartial, and will be viewed as impartial by reasonable and informed third parties.

***PROCEDURES AND RESPONSIBILITIES***

The Inspector General should report, as appropriate, to the NEA Chairman and to Congress on any matter where the independence of OIG operation is being impaired.

All OIG staff and other personnel assigned to OIG assignments should inform the Inspector General of any apparent or real conflicts that threaten or may appear to threaten their independence, the independence of the Office or any staff member or any person or contractor on a temporary OIG assignment. Threats to independence are circumstances that could impair independence.

All OIG staff and other personnel assigned to OIG engagements are responsible for complying with the auditing standard for independence. Each auditor should read and become thoroughly conversant with the requirements of the standard for independence. What follows was largely extracted from the Comptroller General's Government Auditing Standards.

## **Nonaudit Services**

Auditors have traditionally provided a range of nonaudit services that are consistent with their skills and expertise to entities at which they perform audits. Providing such nonaudit services may create threats to an auditor's independence. If NEA OIG perform nonaudit services, the impact on the auditor and audit organization's independence should be assessed and documented in accordance with GAGAS independence standard.

GAGAS does not cover nonaudit services, therefore the requestors and those in charge of governance should be informed, in writing that the work will not constitute an audit conducted in accordance with GAGAS.

## **Threats to Independence**

Threats to independence are circumstances that could impair independence. Whether independence is impaired depends on the nature of the threat, whether the threat is of such significance that it would compromise an auditor's professional judgment or create the appearance that the auditor's professional judgment may be compromised, and on the specific safeguards applied to eliminate the threat or reduce it to an acceptable level. Threats are conditions to be evaluated using the conceptual framework. Threats do not necessarily impair independence.

Threats to independence may be created by a wide range of relationships and circumstances. Auditors should evaluate the following broad categories of threats to independence when threats are being identified and evaluated. Specifically, auditors should apply the Government Auditing Standards conceptual framework at the audit organization, audit, and individual auditor levels to:

- a. identify threats to independence;
- b. 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.

If no safeguards are available to eliminate an unacceptable threat or reduce it to an acceptable level, independence would be considered impaired.

There are seven broad categories of threats to independence: (1) self-interest, (2) self-review, (3) bias, (4) familiarity, (5) undue influence, (6) management participation and (7) structural threats - which must be considered by the OIG auditors in deciding whether their ability to perform impartially is adversely affected.

- (1).** Self-interest threat - the threat that a financial or other interest will inappropriately influence an auditor's judgment or behavior;
- (2).** Self-review threat - the threat that an auditor or audit organization that has provided nonaudit services will not appropriately evaluate the results of previous judgments made or services performed as part of the nonaudit services when forming a judgment significant to an audit;
- (3).** Bias threat - the threat that an auditor will, as a result of political, ideological, social, or other convictions, take a position that is not objective;
- (4).** Familiarity threat - the threat that aspects of a relationship with management or personnel of an audited entity, such as a close or long relationship, or that of an immediate or close family member, will lead an auditor to take a position that is not objective;
- (5).** Undue influence threat - the threat that external influences or pressures will impact an auditor's ability to make independent and objective judgments;
- (6).** Management participation threat - the threat that results from an auditor's taking on the role of management or otherwise performing management functions on behalf of the entity undergoing an audit; and
- (7).** Structural threat - the threat that an audit organization's placement within a government entity, in combination with the structure of the government entity being audited, will impact the audit organization's ability to perform work and report results objectively.

Auditors should evaluate threats to independence, using the conceptual framework, document the threats identified and the safeguards applied to eliminate the threats or reduce them to an acceptable level.

Circumstances that result in a threat to independence in one of the above categories may result in other threats as well. For example, a circumstance resulting in a structural threat to independence may also expose auditors to undue influence and management participation threats.

Certain conditions may lead to threats that are so significant that they cannot be eliminated or reduced to an acceptable level through the application of safeguards, resulting in impaired independence. Under such conditions, auditors should decline to perform a prospective audit or terminate an audit in progress.

If a threat to independence is initially identified after the auditors' report is issued, the auditor should evaluate the threat's impact on the audit and on GAGAS compliance. If the auditors determine that the newly identified threat had an impact on the audit that would have resulted in the auditors' report being different from the report issued had the auditors been aware of it, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the organizations requiring or arranging for the audits, and other known users, so that they do not continue to rely on findings or conclusions that were impacted by the threat to independence. If the report was previously posted to the auditors' publicly accessible website, the auditors should remove the report and post a public notification that the report was removed. The auditors should then determine whether to conduct additional audit work necessary to reissue the report, including any revised findings or conclusions or repost the original report if the additional audit work does not result in a change in findings or conclusions.

### **Affirmation of Independence**

Annually, each OIG staff member will sign a statement affirming his/her awareness of the necessity to maintain independence (Attachment 402-A). This statement confirms that he/she is aware of the independence standard prescribed by the Government Auditing Standards, and the necessity of adhering to the standard.

OIG staff will affirm independence for each engagement. In addition, annually, OIG staff will complete the Confidential Financial Disclosure Report, SF 450 and/or SF 278, as required. These forms will be submitted to NEA General Counsel as directed.

# NEA - Office of the Inspector General

## Statement of Independence

I certify that I have read and understand the **Government Auditing Standards for independence (GAO "Yellow Book," 2011, Revision (12/2011)), Chapter 3**, and the **OIG Audit Policies and Procedures Manual Section 402, Independence** and to the best of my knowledge and belief I am free both in mind and appearance from impairments to independence.

I understand that I am responsible for identifying potential threats/ impairments to my independence, notifying my supervisor of any potential threat/ impairment, and recusing myself from individual assignments, if appropriate. I am also responsible for assessing and documenting any threats according to GAGAS independence requirements, including the conceptual framework. I understand that if I do not comply with the independence standard, I may be subject to sanctions up to and including possible termination.

Title

Printed Name

Signature

Date

\_\_\_\_\_

This Statement of Independence applies to one year commencing on the date above.



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**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

Audit Policy and Procedures Manual Chapter 400 –General Standards	SECTION TITLE	
	PROFESSIONAL JUDGMENT	
	EFFECTIVE DATE January 16, 2011	SECTION NUMBER 403

***POLICY***

*As required by Government Auditing Standards, the OIG and its staff in planning and performing audits and attestation engagements and in reporting the results will use professional judgment.*

***PROCEDURES AND RESPONSIBILITIES***

All OIG auditors are to read and become familiar with the Professional Judgment Standard discussed in the Comptroller General's Government Auditing Standards. Some of the more salient points of the standard are summarized in the paragraphs that follow.

The Professional Judgment Standard requires the OIG and auditors to exercise reasonable care and diligence and to observe the principles of serving the public interest and maintaining the highest degree of integrity, objectivity, and independence in applying professional judgment to all aspects of their work. If auditors state they are performing their work in accordance with GAS, they should justify any departures from GAS

Auditors should use professional judgment in determining the type of assignment to be performed and the standards that apply to the work; defining the scope the work; selecting the methodology; determining the type and amount of evidence to be gathered; and choosing the tests and procedures for their work.

This standard requires the OIG and the auditors to exercise professional skepticism, which is an attitude that includes a questioning mind and a critical assessment of evidence.

The exercise of professional judgment allows auditors to obtain reasonable assurance that material misstatements or significant inaccuracies in data will likely be detected if they existed.

Auditors should document significant decisions affecting the audit objectives, scope, and methodology; findings, conclusions and recommendations resulting from professional judgment.

If legal issues arise, the audit staff member should, through the Inspector General, consult with the OIG General Counsel's staff person designated by the Agency which provides legal services through a memorandum of understanding with the OIG.

*MOU with OIG which provides legal services to the NEA OIG can be found electronically on the IG drive in the MOU folder.*

**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

<b>Audit Policy and Procedures Manual Chapter 400 – General Standards</b>	SECTION TITLE	
	QUALITY CONTROL AND ASSURANCE	
	EFFECTIVE DATE January 16, 2011	SECTION NUMBER 404

***POLICY***

*The OIG will maintain an on-going Quality Control and Assurance Program to ensure compliance with the Government Accounting Standards and the specific policies and procedures issued by the Inspector General. The OIG when performing audits and/or attestation engagements in accordance with GAGAS will have an appropriate internal quality control system in place and will undergo an external peer review.*

***PROCEDURES AND RESPONSIBILITIES***

The component parts of the OIG's Quality Control and Assurance Program are: documented audit operating policies and procedures, supervision of the audit staff, report referencing, and external peer reviews.

**OPERATING POLICIES AND PROCEDURES**

The Inspector General's policies and procedures are documented in this Audit Policy and Procedures Manual. The policies and procedures are established to provide OIG with reasonable assurance of complying with applicable standards governing audits and attestation engagements. The nature and extent of the OIG's internal quality control system is dependent on several factors, such as size, the degree of operating autonomy allowed its personnel, the nature of its work, its organizational structure, and appropriate cost-benefit considerations. Implementation of the policies and procedures is the responsibility of all OIG staff members.

**SUPERVISION**

The principal quality control from an operating standpoint is on-going "*supervision.*" The OIG's structure and relatively small staff makes the Office's top managers an integral part of the supervisory chain.

The auditor and appropriate supervisor of each assignment shall exercise professional judgment to ensure conformance with the applicable Government Auditing Standards and OIG policies and procedures.

## **REPORT REFERENCING**

A system of report referencing has been established to ensure that audit and attestation engagement reports are complete and accurate, and are supported by adequate evidence in the workpapers (Section 804).

## **INTERNAL QUALITY CONTROL**

The OIG will perform quality control assessments and summarize the results at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective actions.

## **EXTERNAL PEER REVIEWS**

The OIG will participate in a peer review at least once every three years. The external peer review, conducted by an audit organization independent of the OIG, will determine if the OIG's internal quality control system is adequate and whether quality control policies and procedures are complied with to provide the OIG with reasonable assurance of conforming to applicable professional standards. The OIG shall take remedial, corrective actions as needed based on the results of the peer review. The OIG will also ensure that the most recent peer review report is publicly available on the OIG website.

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**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

<b>Audit Policy and Procedures Manual Chapter 500 – Standards of Evidence</b>	SECTION TITLE	
	EVIDENCE	
	EFFECTIVE DATE January 16, 2012	SECTION NUMBER 501

***POLICY***

*In accordance with Government Auditing Standards, it is the policy of OIG that "Sufficient, appropriate evidence to provide a reasonable basis for the auditors' findings and conclusions."*

***PROCEDURES AND RESPONSIBILITIES***

The quote in the policy statement above was taken from the Government Auditing Standards for performance audits. The standards also include guidance on evidence for financial audits. Although presented in a different fashion, the standards of evidence for performance and financial audits have similar objectives. A large part of the auditors' work concerns obtaining and evaluating evidence that ultimately supports their judgments and conclusions pertaining to the audit objectives. Each auditor should read and become thoroughly conversant with the standards of evidence, and should ensure that their work meets these standards. What follows was largely extracted from the Government Auditing Standards.

**TYPES OF EVIDENCE**

In collecting workpaper support, auditors must attempt to obtain the "best" evidence possible in terms of supporting an audit issue or finding (positive or negative). Evidence can be categorized into four types: (1) physical, (2) documentary, (3) testimonial, and (4) analytical. 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.

**Physical Evidence**

Physical evidence is obtained by the auditors' direct inspection or observation of people, property, or events.

Whenever practical, effective use should be made of observation and inspection techniques. A *"walk-through"* of an operation or an activity, for example, may identify audit leads or, at the very least, may help the auditor to better understand how an operation or an activity functions. The auditor's ability to state that a condition was observed may make a finding more convincing than statements based on other forms of evidence. The results of observations and inspections should be documented in the workpapers. The documentation may take the form of memorandum for the record, photographs, charts, maps or actual samples of what was observed.

### **Documentary Evidence**

Documentary evidence consists of created information such as letters, contracts, accounting records, invoices, and management information on performance. The reliability of documentary evidence must also be assessed.

If documentary evidence will be used as preliminary or corroborating evidence, the auditor may not be as concerned about its reliability as he/she would be if it would be used as primary evidence or the only evidence. The sensitivity of the audit issue and the importance of a document to the audit should govern the extent to which its reliability needs to be verified.

### **Testimonial Evidence**

Testimonial evidence is information obtained through inquiries, interviews, or questionnaires. It is important that the auditor assess the reliability and usefulness of testimonial evidence.

When measuring the reliability of testimonial evidence, some general rules should be considered. Why would a person misinform the auditor? If the person has a vested interest in what is being discussed or if the person is expressing opinions, he/she may not be providing objective evidence. Accordingly, the reliability of the evidence may be impaired.

What is the person's responsibility? Testimonial evidence regarding events for which a person has no responsibility carries less weight than if the person is the responsible official. In most instances, testimonial evidence obtained from a person with no responsibility for the subject, operation or event being discussed should be used only as a lead to obtain more reliable forms of evidence.

What is the person's position? Generally, when interviewing the heads of departments and sections it may be best, initially, to limit inquiries to broad questions concerning policy and the operations of the entity being audited. When details are needed on how



something functions or works, the first line supervisor or the worker should be interviewed when possible. Of course, if information obtained from these sources is likely to become a part of an audit finding or conclusion, it should be confirmed with the responsible department or section head.

Certain statements by officials concerning matters under discussion, such as explanations, justifications, lines of reasoning, and intentions, are valuable sources of evidence that many times cannot be corroborated. If the auditor anticipates statements such as these may be part of an audit finding and may be included in the report, consideration should be given to placing the following statement at the end of the memorandum of the interview and requesting the person interviewed to sign the statement:

*I have read this memorandum of interview and I agree that it presents fully the matters discussed and the statements made during the interview.*

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

### **Analytical Evidence**

Analytical evidence includes computations, comparisons, separation of information into components, and rational arguments. The assimilation of other forms of evidence into a logical framework to identify problems, to form conclusions and to develop recommendations would be a type of analytical evidence.

### **TESTS OF EVIDENCE**

All audit evidence should be sufficient and appropriate to support a sound basis for audit findings, conclusions, and recommendations. Evidence should meet the basic tests of sufficiency and appropriateness:

- **Sufficiency.** Sufficiency is the presence of adequate factual evidence to lead a knowledgeable person to the same conclusion as that of the auditor. The auditor must exercise judgment in determining the amount of evidence needed to support an audit opinion or conclusion. Elaborate support of insignificant points is a waste of audit resources. For significant matters, however, sufficient evidence is needed to back up the auditor's opinions and conclusions.

Appropriateness. Appropriateness is the measure of the quality of evidence that encompasses the relevance, validity, and reliability of evidence used for addressing the audit objectives and supporting the findings and conclusions.

Relevance. Evidence is relevant if it has a logical relationship with, and importance to, the issue being addressed.

Validity. Evidence is valid if it is based on sound reasoning or accurate information.

Reliability. Reliability of evidence refers to the consistency of results when information is measured or tested and includes the concepts of being verifiable or supported. The following presumptions are useful in judging the reliability of evidence.

- Evidence obtained from a credible third party (such as a bank confirmation of account balances) is more reliable than evidence obtained from the organization being audited, reviewed, or inspected.
- Evidence developed under an effective system of management controls is more reliable than evidence obtained where controls are weak or nonexistent.
- Evidence obtained through direct physical examination, observation, computation, or inspection is more reliable than evidence obtained indirectly.
- Original documents provide more reliable evidence than do copies.
- Testimonial evidence obtained under conditions where persons may speak freely is more reliable than testimonial evidence obtained under compromising conditions.
- Testimonial evidence obtained from an individual who is not biased or who has complete knowledge of the area is more reliable than testimonial evidence obtained from an individual who is biased or has only partial knowledge of the area.

## **COMPUTER-BASED EVIDENCE**

Computer-based evidence consists of information maintained in electronic form. As in the case of other evidence, the Government Auditing Standards include requirements for determining the reliability of computer-based information.

Auditors should obtain sufficient and appropriate evidence that computer-processed data are valid and reliable when those data are significant to the auditors' findings. This

work is necessary regardless of whether the data are provided to auditors or the auditors independently extract them. Auditors should determine if other auditors have worked to establish the validity and reliability of the data or the effectiveness of the controls over the system that produced the data. If the results of such work are current, the auditors may be able to use that work. Auditors may also determine the validity and reliability by direct testing of the computer-processed data. Auditors can reduce the direct tests of the data if they test the effectiveness of general and application controls over computer-processed data, and these tests support the conclusion that the controls are effective.

When the auditors' tests of data disclose errors in the data, or when they are unable to obtain sufficient and appropriate evidence about the validity and reliability of the data, they may find it necessary to:

- Seek evidence from other sources.
- Redefine the audit's objectives to eliminate the need to use the data.
- Use the data, but clearly indicate in their report the data's limitations and refrain from making unwarranted conclusions or recommendations.

If in the final analysis the skills of a computer specialist are needed, an auditor who does not possess these skills should seek help.

When computer-generated data are used for background or informational purposes and are not *significant* to the audit results, citing the source of the data in the audit report will usually satisfy the reporting standards for accuracy and completeness.

***Overall assessment of evidence used to support findings and conclusions, whether or not sufficient and appropriate should be documented.***

**AUDIT POLICY AND PROCEDURES MANUAL**

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**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

Audit Policy and Procedures Manual Chapter 600 – Audit Documentation	SECTION TITLE AUDIT DOCUMENTATION	
	EFFECTIVE DATE August 15, 2013	SECTION NUMBER 601

**POLICY**

*Auditors must prepare audit documentation related to planning, conducting, and reporting for each audit. Auditors should prepare audit documentation in sufficient detail to enable an experienced auditor who has no previous connection with the audit or attestation engagement to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions.*

**PROCEDURES AND RESPONSIBILITIES**

The preparation of acceptable audit and attest documentation is the duty and responsibility of all OIG auditors.

**DEFINITION AND PURPOSE OF AUDIT DOCUMENTATION**

Audit and attest documentation includes the collection of schedules, papers, analyses, correspondence, and other material prepared or obtained by the auditor during the audit or attestation engagement.

The documentation is the evolving product of information collected as part of an audit or attestation engagement that, when effectively organized, provide an efficient tool for analysis and a sound basis for findings and recommendations directly related to the audit objectives. It serves as a connecting link between the work done and the audit or attest report. In addition, the documentation provides systematic evidence of how auditor and supervisory responsibilities on specific assignments are carried out. The main purpose of the documentation is to:

- Provide a systematic record of work performed in carrying out an audit.

- Provide a record of information and evidence obtained and developed in support of findings, conclusions and recommendations before the auditors issue their report.
- Function as tools to assist team members in carrying out their assigned tasks.
- Provide information to supervisors and team leaders to enable them to properly manage audits and to evaluate the performance of their staff.
- Provide a record of useful information for future reference in planning and carrying out subsequent audits or attestation engagements

## **CONTENT OF AUDIT DOCUMENTATION (WORKING PAPERS)**

The content of audit documentation will vary depending on the purpose, scope and objectives of the audit or attestation engagement. Generally, audit document will include, but not be limited to, the following:

- The basis for initiating an audit or attestation engagement, and information on the purpose, scope and objectives of the audit or attestation engagement.
- Background and survey information pertaining to the entity or activity audited.
- An audit/attest guide or program that articulates the audit work to be performed.
- Evidence collected in response to the audit guide or program.
- The auditors' analysis of the evidence collected, along with the auditors' conclusions and recommendations.
- Draft and final audit reports, cross-referenced to the supporting audit documentation.
- Evidence of supervisory reviews of the work performed.

## **PREPARATION OF SUPPORTING DOCUMENTATION**

Audit documentation should be complete and accurate, clear, legible and neat, and relevant.

### **Completeness and Accuracy**

Complete and accurate audit documentation provide proper support for findings, conclusions and recommendations and demonstrate the nature and scope of the work performed.

## **Clarity**

Audit documentation, including photocopies documents, should be clear and understandable without supplementary oral explanations regarding their purpose, the source of the information displayed, the nature and scope of the work done, and the auditors' conclusions. Conciseness is important but clarity and completeness should not be sacrificed.

## **Legibility and Neatness**

Audit Documentation papers should be legible and neat.

## **Relevance**

The information contained in the audit documentation should be restricted to matters that are materially important and relevant to the audit or attestation engagement objectives.

## **IDENTIFICATION OF AUDIT DOCUMENTATION**

As a minimum, the audit title and subject or title of the working paper should be identified. Audit documentation, including photocopies of documents, should be signed and dated by the auditors preparing the audit documentation.

## **ORGANIZATION OF AUDIT DOCUMENTATION**

No standard system for organizing and indexing audit documentation is prescribed. However, audit documentation should be arranged in a logical sequence to facilitate the summarization and use of information contained in the papers, and to provide an easily followed record of the audit/attest effort. Indexing systems should be simple, expandable, and related to the audit/attest program to facilitate easy referencing.

## **INDEXING/CROSS-INDEXING AUDIT DOCUMENTATION**

Audit documentation should be indexed and cross-indexed, as appropriate, one to another, to summaries and lead schedules, and to the draft and final audit or attest reports.

## **SUPERVISORY REVIEW OF AUDIT DOCUMENTATION**

Supervisors are responsible for reviewing the audit documentation prepared by the staff to ensure that all potential findings have been identified and properly developed, and

that findings and draft and final reports are adequately supported. If audit was performed in hardcopy, supervisory reviews will be documented by use of initials in the audit documentation or documented by approvals in electronic workpapers. The reviewer will record the date of the review and place his/her initial on the audit documentation reviewed. An audit documentation checklist to guide the supervisor's review of a group or series of hard copy audit documentation is at Attachment 601-A.

Supervisory review of electronic audit documentation in Auto Audit (audit management system) is evidenced by the comments, history and electronic preliminary and final approvals.

The reviewer is responsible for following up to ensure that questions raised during the review are resolved satisfactorily.

## **ACCESS TO AUDIT DOCUMENTATION**

Audit or attest documentation should be safeguarded to prevent access by unauthorized persons or to prevent the premature disclosure of audit or attest information. When the auditor is working outside of the OIG offices, audit documentation, which are not in use, should be secured in a file cabinet, desk or briefcase.

All access to audit documentation by persons outside the OIG must be specifically authorized by the Inspector General or the AIG. When unlimited access is authorized, copying or extracting data is allowed. OIG policy is to provide information from the audit documentation to requesting officials who have a legitimate interest in the information requested. The extent of access generally will be based on the responsibilities of the requestor. However, some types of information should not be disclosed.

Exceptions to disclosure include legitimate confidences that need to be protected. Special care should be exercised on requests for information furnished by an informant other than in the regular course of the informant's official duties. Officials outside of the OIG normally will not be allowed access to audit or attest programs or other materials, which provide detailed information on the scope and nature of an audit, before the draft audit or attest report is circulated.

- GAO - In carrying out its responsibilities to review the effectiveness of agency audits and other management controls, GAO may require information as to the scope and nature of audit or attest work performed or planned. OIG policy is to make audit documentation, including audit programs, available to GAO and to discuss fully with GAO the audit work performed or planned.



- External Quality Control Review - Peer reviewers performing external quality control reviews of OIG audit or attest operations (Section 404) are to be provided unrestricted access to audit documentation and reports pertaining to completed audits or attest engagements included within the scope of the peer review.
- General Public – The Inspector General Reform Act of 2008, requires the posting of reports and audit to the OIG website “not later than three days after any report audit is made publically available.” The Inspector General retains authority for deciding whether information may be released to the public.

## **RETENTION AND SAFEGUARDING AUDIT DOCUMENTATION**

Audit documentation must always be appropriately safeguarded. Access to audit documentation must be restricted to authorized personnel. If audit documentation is lost, the staff must promptly report the loss to the IG, or designee. The IG will take action to report the loss to the appropriate authorities. Audit documentation is to be appropriately safeguarded depending on sensitivity of the contents.

All electronic audit documentation should be maintained on the OIG server in the audit electronic management system (AutoAudit) located on the OIG server. Audit files located within the audit management system are backup by NEA ITM in accordance with backup procedures. Audit documentation should only be stored in the Auto Audit or the OIG/H drive and not on personal drives or desktops for accessibility by other OIG staff.

Documentation should only be stored externally in accordance with the “OIG Request for Records Disposition Authority”, dated August 28, 2006. If an assignment is selected for external peer review, the OIG has 48 hours to provide the audit documentation to the reviewers.

**AUDIT DOCUMENTATION (A/D) CHECKLIST**

ASSIGNMENT \_\_\_\_\_

A/D FILE NUMBER AND TITLE \_\_\_\_\_

*This checklist is intended to guide the supervisor's review of a group or series of related audit documentation. A "NO" answer should normally result in either a cautionary note to the persons who prepared the audit documentation or a note requiring corrective action(s).*

	<u>Yes</u>	<u>No</u>	
1.	_____	_____	Does the A/D identify the assignment?
2.	_____	_____	Is the A/D properly titled?
3.	_____	_____	Does the A/D contain the signatures of the preparers, and the dates the A/D was prepared?
4.	_____	_____	Is the A/D arranged and indexed in a clear and logical manner?
5.	_____	_____	Does the A/D contain a clear statement of the:
			<u>Yes</u> <u>No</u>
			a. _____ Purpose of the A/D?
			b. _____ Source of data or information in the A/D?
			c. _____ Scope of the work performed?
			d. _____ Auditors' conclusions?
6.	_____	_____	Are the conclusions stated in the A/D properly supported?
7.	_____	_____	Does the A/D supporting findings adequately document the:
			a. _____ Criteria applied during the audit?
			b. _____ Causes of adverse conditions identified?
			c. _____ Effects of adverse conditions identified?
8.	_____	_____	Does the A/D document recommendations for all identified "causes"?
9.	_____	_____	Are "tick marks" explained in the A/D's?
10.	_____	_____	Does the A/D show that all appropriate "footings" and "cross footings" were made?
11.	_____	_____	Is the A/D cross-referenced, as appropriate, to:
			a. _____ The audit or attest program?
			b. _____ Other A/D in the file?
			c. _____ Other A/D in other files?
12.	_____	_____	Is the A/D complete and clear enough not to require verbal explanations?

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**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

Audit Policy and Procedures Manual Chapter 700 – Conducting Audits	SECTION TITLE	
	STARTING ENGAGEMENT ASSIGNMENTS	
	EFFECTIVE DATE August 15, 2013	SECTION NUMBER 701

***POLICY***

*The following procedures are for all internal or external engagements (attestation, audit, special review).*

*Except when an engagement needs to be conducted on a surprise basis or short notice, the auditee will be given advance notification of the start of the assignment.*

*An entrance conference should normally be held with responsible management officials before starting engagement fieldwork.*

***PROCEDURES AND RESPONSIBILITIES***

The Auditor-in-Charge is responsible for notifying the auditee of the start of the engagement and for arranging the entrance conference.

**ENGAGEMENT NOTIFICATION**

The selected grantee, cooperator, or contractor will be notified by letter prior to the start of the review. The letter will be prepared for the Inspector General's signature. The letter should communicate to the auditee the preliminary understanding of the purpose and scope of the engagement (the purpose and scope may be revised after survey work is completed), and the identities of the auditors responsible for conducting the fieldwork. If some advance preparation for the engagement on the part of the auditee is desired, the specifics of what is desired should be spelled out in the notification. Also, if previously arranged, the date and time for the entrance conference should be confirmed. If entrance conference arrangements have not been made, a date should be suggested and the auditee should be requested to confirm the suitability of that date or to propose an alternate date.

Starting an internal engagement and setting up an entrance conference will be arranged in advance by the Auditor-in-Charge by means of a telephone call to the auditee. Written confirmation of the arrangements will be provided if requested by the auditee.

## **ENTRANCE CONFERENCE**

An entrance conference is held to:

- Discuss the engagement objectives, scope, and milestones;
- Introduce the engagement staff;
- Meet the operating official(s) who will serve as the point(s) of contact during the engagement;
- Establish agreeable working relationships, including arrangements for on-site work space and access to records;
- Provide management with an opportunity to ask questions about the engagement, or suggest areas for examination;
- Explain how the results of the engagement will be reported; and
- Obtain information regarding possible duplicative efforts by other organizations.

An entrance conference may be deferred, subject to approval by the Inspector General, when an engagement needs to be conducted on an unannounced basis to ensure the integrity of the process; for example, audits involving impress funds and audits of inventory balances.

The Auditor-in-Charge should prepare an Entrance Conference Memorandum to be filed in the working papers. The memorandum should include (1) the date, time, and location of the conference, (2) the name and title of all attendees, and (3) a brief summary of matters discussed at the conference.

**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

<b>Audit Policy and Procedures Manual Chapter 700 – Audit Documentation</b>	SECTION TITLE	
	AUDIT OBJECTIVES	
	EFFECTIVE DATE February 15, 2007	SECTION NUMBER 702

***POLICY***

*Government Auditing Standards require all audits to begin with objectives and those objectives determine the type of audit to be conducted and the audit steps to be followed. The types of government audits, as defined by their objectives, are classified as financial audits and performance audits. Audits may have a combination of financial and performance audit objectives or may have objectives limited to only some aspects of one audit type.*

*As required by the standards, audit objectives are to be established to guide planning and conducting OIG audits, and reporting on the audit results. Audit objectives established during the planning phase are to be perpetuated through the remaining phases of the audit process. The objectives may be refined during the survey phase of the audit.*

***PROCEDURES AND RESPONSIBILITIES***

**DEFINITIONS**

**Audit Objective**

An audit objective is a statement of what the audit is expected to accomplish. Objectives are usually phrased by using the words "*determine whether . . .*," or "*evaluate.*" Objectives should be stated in such a way that they can be answered in terms of "*adequate,*" "*not adequate,*" or "*needs improvement.*" Audit steps can then be designed to require sufficient audit work to be performed to enable conclusions to be reached on the objectives.

**Overall and Specific Objectives**

Whether an objective is overall or specific depends on the audit scope. The term "*overall objective*" is usually reserved for the objective that addresses a broad issue -- usually to determine how well a major mission or function under review is being



accomplished. Any subdivision of that objective is then referred to as a "*specific objective*." Specific objectives follow from the overall objective and relate to the key elements and/or management areas of the mission or function under review. It may not be possible to develop an overall objective for a limited scope audit.

## **CONCEPT**

The principal goals of focusing on well-defined audit objectives are to achieve better application of scarce auditor resources; better audit results; and better objectivity, perspective, and tonal quality in audit reports. Key to the concept is focusing on audit objectives throughout the audit cycle -- from development of the initial audit plan through preparation of the final report on the audit results. Basic elements of the concept are:

- Establishing an overall objective for the audit, if appropriate.
- Establishing specific audit objectives.
- Communicating the audit objectives to the auditee.
- Refining objectives during the audit survey phase of the audit.
- Communicating any significant changes in the objectives to the auditee.
- Constructing an audit program to address the audit objectives and to develop potential findings. (See Section 704.)
- Reporting audit results in the form of conclusions on the overall audit objective and each specific objective.

## **ESTABLISHING OBJECTIVES**

Audit objectives are initially determined and established during the audit planning process. More objectives than those necessary to cover the essential elements of the audit subject should not be established.

### **Overall Objectives**

Overall objectives set forth the main question to be pursued during the audit. An audit should, if possible, have an overall objective but it is not mandatory to have one. Examples of overall objectives are:

- To evaluate the adequacy of NEA's Automated Grants Management System.
- To determine the adequacy of contract preaward procedures and practices.

## Specific Objectives

Specific audit objectives should be as detailed as possible. Detailed audit objectives (i) provide little chance for misunderstanding, (ii) provide the basis for a quality audit, and (iii) identify the audit subject and the performance aspect reviewed. For examples, specific objectives for the audit of the Automated Grants Management System are to determine whether:

- Procedures for data entry validation are adequate.
- Processing controls ensure integrity and reliability of data.
- Output reports are accurate, timely and useful.

## Vague Objectives

Vague audit objectives such as *"evaluate use of resources," "identify areas for improvement," "assess the effectiveness and efficiency,"* or *"review policies, practices, and controls"* should not be used. They neither adequately describe the areas that will be included in the audit nor state what information will be obtained. It would be difficult, if not impossible, to do sufficient audit work to be able to respond in a meaningful way to such broadly worded objectives. Also, positive conclusions for vague objectives are usually based on the assumption that if problems were not identified, then none existed, although sufficient survey work or audit tests may not have been performed to support such conclusions.

## Internal Control and Compliance Objectives

- **Financial Audits.** Evaluating the adequacy of internal controls and determining compliance with laws and regulations are major purposes of financial audits and some financial-related audits. Therefore, these objectives are to be established and reported on for these type audits, along with any other specific objectives that may be established for the audits.
- **Performance Audits.** For performance audits (economy and efficiency audits and program results audits), separate internal control and compliance audit objectives are not established unless the audit deals with the evaluation of some specific internal control, or compliance with some specific law or regulation. In other cases, the inadequacy of internal controls or noncompliance with laws and regulations should be addressed in the conclusions pertaining to the appropriate objectives and in the findings that result from pursuing the objectives during the audit.

## **MODIFICATION OF OBJECTIVES**

Audit objectives established during the planning process may be modified to clarify intent and to better focus the objectives based on the results of audit survey work. In extremely rare cases where an audit's scope is reduced significantly or audit resources are not available to provide full coverage, audit objectives may be changed or deleted. Objectives should be changed or deleted only after a thorough review is made of the audit work that has been performed up to the time of the review:

- If an objective is deleted in the early stage of the audit before any significant audit resources have been expended, it may be deleted without making reference to it in the audit report.
- If a significant potential problem is noted after performing limited work, but resources are not available to develop the problem, the objective may be deleted and the auditee and other interested managers informed, in writing, of the reason for the deletion along with either (1) an audit recommendation that the auditee look further into the potential problem area, or (2) a commitment to cover the potential problem in another audit. If the problem noted is minor in nature, informing the auditee of the limited audit scope and the problem noted would be sufficient.

## **COMMUNICATING OBJECTIVES**

The auditee should be kept informed of audit objectives, any significant changes to or deletions of objectives, and the reasons for changes or deletions. The Professional Judgment Standard includes obtaining a mutual understanding of the audit objectives and scope with the audited entity as well as with those who requested the audit.

## **UNANTICIPATED PROBLEM AREAS**

In some instances it may be appropriate to develop a finding that is unrelated to the objectives established for the audit. In this case, there would be no need to change the established objectives. The finding would be reported as one that was developed during the course of the audit. Normally, however, significant problem areas noted outside the original audit plan should be highlighted and recommended for separate audit coverage.

**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

Audit Policy and Procedures Manual Chapter 700 – Audit Documentation	SECTION TITLE	
	AUDIT SURVEYS	
	EFFECTIVE DATE August 15, 2013	SECTION NUMBER 703

***POLICY***

*An audit survey will be conducted when necessary to gain a working understanding of the operations or activities to be audited. When appropriate, the survey will be directed toward identifying potential problem areas to be pursued during the audit and related performance measurement criteria.*

***PROCEDURES AND RESPONSIBILITIES***

The Inspector General will determine the need for an audit survey based on the significance of the planned audit in terms of the commitment of auditor resources, and the availability of information at OIG concerning the audit subject.

When a survey is determined to be necessary, the Auditor-in-Charge (AIC) is responsible for planning and conducting the survey, and for assessing the results of the survey work.

**FLEXIBILITY AND SCOPE**

The guidelines for audit surveys are meant to be flexible. The auditor should be resourceful, applying those techniques that fit the specific entity surveyed, but alert to additional techniques that may be effective.

The extent of the survey depends on such factors as the purpose of the planned audit; the size, nature, type, or complexity of the entity; prior audit experience; and, suspected weaknesses. The survey should be comprehensive enough to provide a good general understanding of the entity's mission, performance capabilities, important operational areas, management controls, and potential weaknesses or problem areas.

## **OBJECTIVES**

The specific objectives of the survey are to:

- Learn how the auditee is organized, what its mission is, and how it operates.
- Identify important operations, sensitive areas, weaknesses, or inefficiencies which require comprehensive audit coverage.
- Identify areas which require only limited or no additional audit coverage because operations are determined to be satisfactory or because of the relative insignificance of the areas.
- Identify performance measurement criteria, if any.
- Obtain information needed to:
  - Prepare an audit program or tailor an existing program or guide to fit the conditions of a specific audit.
  - Provide the basis for dividing the audit work into manageable segments that can be adequately supervised, performed, and reported on within a reasonable period of time.
  - Determine the staffing level and time required to complete the audit effectively and efficiently.
  - Evaluate whether to use the work of other auditors, specialists, and others to address some of the audit objectives.
  - Develop a sampling methodology if applicable.
  - Determine if prior audit recommendations have been implemented.
- Refine the objectives established for the planned audit.

## **SURVEY PLAN**

An effective survey requires planning. The AIC should develop a brief, written plan of the work to be done. The plan becomes part of the working papers, and planned survey steps should be cross-indexed to the completed work.

The survey plan should include the scope of the survey work, as well as specific survey references, objectives, and work steps.

## **GENERAL GUIDELINES**

New information should be obtained only as needed to update that already accumulated. The auditor should avoid becoming overburdened with detail that cannot be productively used at this stage of the review.

Time can be saved and the potential for error reduced by getting photocopies of the needed material rather than manually copying the material.

The auditor should visualize what is to be achieved in the survey, particularly in terms of adverse effects in potential findings.

Areas of materiality and problems and weaknesses in operating practices and procedures which need audit attention should be identified. These areas should be carefully studied to ensure that the objectives and steps included in the audit program will provide information that will result in sound, convincing findings and recommendations.

The auditor should develop a clear understanding of the level of management to be audited.

## **PREPARING FOR THE SURVEY**

Before visiting the audit site, the audit team should review information in OIG files that relate to the auditee; for example:

- Investigative reports on personnel or activities of the auditee. These reports may provide leads on inadequate controls or other problems.
- Applicable directives and memorandums pertaining to the auditee's programs, policies, procedures, and controls.
- Statistical, financial, and budget information.
- Summary information on recent surveys or audits of similar activities, and related audit findings.

Unless the survey is unannounced, the auditee should be requested to provide an orientation briefing on its operations before on-site survey work begins.

Before visiting the audit site, the audit team should review and evaluate the work of other auditors and specialists that may be relevant to the audit objectives. The results of other auditors' work may be useful sources of information for planning and performing the audit.

If other auditors have identified areas that warrant further audit work or follow-up, their work may influence the auditors' selection of objectives, scope, and methodology.

Some audits may necessitate the use of specialized techniques or methods that require the skills of a specialist. If auditors intend to use the work of specialists, they should assess the professional qualifications and independence of the specialists.

## **GATHERING GENERAL INFORMATION**

Several kinds of general information may be gathered or updated during the survey.

### **Background Information**

Information should be obtained on the background and mission of the auditee. Often an available pamphlet or directive pertaining to the auditee will provide this information.

### **Legal Authority**

The auditor does not have to make a complete study of legislation or other sources of the auditee's authority. However, the auditor should be familiar enough with the legal authority of the auditee to recognize unlawful practices if found.

### **Organization and Functions**

Copies of organization charts and functional statements should be obtained and reviewed to gain an understanding of the:

- Mission and function of each major segment of the auditee's organization.
- The people and units that control the funds and other resources.
- Division of duties and responsibilities of auditee personnel.
- Principal delegations of authority.
- Nature and size of subactivities (e.g., number of employees by organizational segment) and the volume of business and nature of the transactions processed by the subactivities.

To develop audit leads, the effectiveness of the organizational structure as a means of management control and as a means of achieving efficient and economical operations should be evaluated.

## **Policies**

Information should be obtained concerning the policies (those established by regulation, handbook, executive direction, or management decision) applicable to the specific activities to be audited, and the overall policies, which have been prescribed by top management to govern the organization to which the auditee belongs.

## **Budget and Financial Data**

Copies of the current operating budget and financial reports (along with related narrative analyses) should be obtained and reviewed for indications of breakdowns in controlling and managing funds, and to identify areas of materiality.

## **REVIEW OF PLANS AND ACCOMPLISHMENTS**

Operating plans and reports on accomplishments should be reviewed to see how well they coincide with each other and whether the planning is practical. The auditor should determine whether established goals are being met. Operating programs, budgets, and other operating summaries and reports should be reviewed to identify the relative importance of the auditee's activities, significant changes or differences between past, current, and planned future operations, and large variances between planned and actual accomplishments.

## **REVIEW OF MANAGEMENT REPORTS**

Management reports on operations showing accomplishments in relation to established standards and goals should be examined. This may provide valuable information for use in selecting audit areas for detailed review. If there are no such reports, the auditor should find out how management controls its operations. This line of inquiry may point to a lack of effective management control or other administrative weaknesses.

## **TRACING TRANSACTIONS**

A limited number of transactions in each program or major functional area should be traced to find out how representative actions actually flow through the auditee's organization. This procedure makes it easier to evaluate established policies and procedures. Some examples of transaction flows are the steps leading up to (a) issuance of a purchase order, (b) award of a contract or grant, (c) payment of a vendor's invoice, or (d) disposal of property.



## **Work Flow**

Many organizations use functional flow charts. Where such charts are available the auditor should obtain copies. It is usually desirable to discuss work flow with an official having a broad perspective of the functions of different organizational units. The official should be asked to outline the general flow of typical transactions throughout the organization. Where functional flow charts are not available or not in the form desired, it often helps to sketch a simple flow chart to record and describe the auditor's understanding of the work flow.

## **Transactions**

Selected transactions should be traced through the auditee's organization, noting the procedures followed and the actions taken or not taken by auditee personnel. This step is not done for the purpose of verifying what happened with respect to the particular transactions. Tracing the transactions may indicate possible weaknesses in the organization, assignments of responsibilities, capabilities of personnel, or control of funds or activities. Tracing also provides a basis for omitting or limiting audit coverage in areas not needing it. Of course, significant, high risk, or sensitive areas may warrant further audit work even if the limited examination of transactions in the survey discloses no indications of serious weakness. (See Section 705, Compliance With Laws and Regulations.)

## **OTHER SURVEY METHODOLOGIES**

Other methods of obtaining evidence during a survey include the following:

- Physical inspections: Onsite observations help to gain a quick working knowledge of an organization's operations and environment.
- Discussions with agency officials and employees: Officials and employees at various levels within the organization should be contacted to obtain an understanding of their responsibilities and methods of operations. They should be specifically asked about areas that are troublesome or that concern them.
- Interviews with others: It may be useful to interview concerned or knowledgeable persons outside the auditee organization to obtain indications of potential weaknesses.

## **EVALUATING SURVEY RESULTS**

The information obtained during the survey should be continually evaluated to ensure that the survey objectives are accomplished, that potential findings are identified, and that a basis is formed for determining the nature and extent of the additional work needed.

## Attributes of a Finding

It is important for auditors and supervisors to be consistent in how they evaluate survey information. Therefore, the support for potential findings should be developed in terms of finding attributes.

- **Criteria.** Criteria tells the reader **what should be** -- i.e., the standard for measuring performance or the goals to be achieved. Examples are laws, regulations, directives, policies, procedures, management principles, and good business practices.
- **Condition.** By definition, an adverse condition ("*what is*") differs from the criteria ("*what should be*"). It tells the reader **what was found** through factual statements. Specific examples and concrete details concerning a reported condition are needed in order to convince a manager of the need for taking corrective action.
- **Cause.** Cause is the reason for the difference between what is and what should be -- i.e., **why the condition happened**. Internal control weaknesses, inadequate management actions, or other factors, which allowed the condition to happen.
- **Effect.** Effect tells **what resulted** from the adverse condition, or "*so what,*" and its significance. Where possible, it should be expressed as a monetary amount or potential savings. Examples include unnecessary expenditures and duplication of effort.
- **Recommendation.** The recommendation describes the action that should be taken to resolve an adverse condition, when, and who should take it.

## AUDIT FINDING WORKSHEET

Use of the "*Audit Finding Worksheet*" illustrated at Attachment 703-A or the audit is performed utilizing electronic working papers, use of the issue (finding) feature will help to analyze potential findings identified in the survey in terms of the attributes discussed above. In most cases, it may not be possible to complete the worksheet based solely on the survey work, however, the use of the worksheet should facilitate planning for the detailed audit work required to firm up the findings. As the audit progresses, the worksheet can be updated.

## USING SURVEY RESULTS TO PREPARE AUDIT PROGRAMS

The results of the survey should be analyzed to determine the need for, and the areas to be covered in subsequent audit work. An audit program should be developed, detailing the audit steps and setting milestones for the audit work. (See Section 704.)

# AUDIT FINDING WORKSHEET

**Condition:** \_\_\_\_\_

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**Criteria:** \_\_\_\_\_

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**Cause:** \_\_\_\_\_

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**Effect:** \_\_\_\_\_

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**Recommendation:** \_\_\_\_\_

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**Disposition:** \_\_\_\_\_

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**National Endowment for the Arts  
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<b>Audit Policy and Procedures Manual Chapter 700 – Conducting Audits</b>	SECTION TITLE	
	AUDIT PROGRAMS	
	EFFECTIVE DATE February 15, 2007	SECTION NUMBER 704

***POLICY***

*All OIG audits will be conducted based on written audit programs or guides. The programs may be standardized programs for recurring type audits, or original programs that are developed based on audit survey work (Section 703). When necessary, standardized programs are to be tailored to meet the needs of particular audit assignments. The guidance provided in this section pertains primarily to the development of original audit programs.*

***PROCEDURES AND RESPONSIBILITIES***

Auditors-in-Charge are responsible for developing results oriented audit programs. The Inspector General must approve the programs.

**GENERAL**

The audit program provides background information and a description of the methodology (audit steps and procedures) that is to be applied in order to accomplish the audit objectives. The program should require sufficient verification work to be done to enable the auditors to reach a conclusion on each objective established for the audit. Generally, audit programs should contain:

- Background information on the audit entity's history and current objectives/responsibilities, its legal authority, and similar information that will help the auditors to carry out the audit program.
- Definitions of unique terms used by the audit entity.
- References (e.g., regulations, laws, and standard operating procedures pertaining to the area under audit).
- Clearly stated audit objectives. (See Section 702.)

- A description of the scope of the audit (e.g., time period covered by the audit, the audit entity's universe, etc.).
- Clearly described methodology to be applied in gathering and analyzing evidence to enable the auditors to reach conclusions on the audit objectives, to include developing potential findings identified during the audit survey. Normally, suggested audit steps and procedures, and sampling plans for the auditor to follow are included.
- An estimate of the auditor days, keyed to the audit steps, required to accomplish the audit program.
- Reporting requirements.
- Target dates for completing the fieldwork and preparing draft and final reports.

The audit program should be constructed in a manner that does not restrict the auditors' professional judgment with respect to curtailing nonproductive work or expanding the program to cover significant areas that come to light as the audit progresses.

### **PROBLEM-ORIENTED METHODOLOGY**

To the maximum extent possible, audit steps and procedures should be oriented toward developing, for each audit objective, the potential findings that were identified during the audit survey. Because of the variety of audit situations that can exist, it is not possible to prescribe any one formula for constructing audit steps or laying out the procedures to be followed in an audit. Also, depending on the depth of the audit survey, a greater or lesser amount of audit verification work may be required to develop findings and to satisfy the audit objectives. In general, however, the following sequence may be considered in constructing audit steps.

- First, if not already identified during the survey, establish steps or procedures to determine the scope (universe) of the problem area to be reviewed (using, whenever possible, available summary-type data).
- Second, require sufficient tests/reviews to be conducted to confirm whether a finding (condition) really exists (assumes "*criteria*" was identified in the survey, but only limited tests/reviews were conducted).
- Third, if necessary, require tests/reviews to determine the full extent of the condition.
- Fourth, require the causes and effects of the condition to be determined.

## **DOCUMENTATION OF ACCOMPLISHMENTS**

Working papers prepared in response to an audit program step should be cross-referenced to the program. The auditor who prepared the working papers should initial the program and enter the date the work was completed. If work required by an audit step is curtailed or deleted, the reasons should be explained in the working papers.

## **STANDARDIZED AUDIT PROGRAMS/GUIDES**

When standardized audit programs and guides are used, an estimate of the time required to complete the steps determined to be applicable to a particular assignment should be annotated on the program or guide.

**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

<b>Audit Policy and Procedures Manual Chapter 700 – Conducting Audits</b>	SECTION TITLE	
	COMPLIANCE WITH LAWS AND REGULATIONS	
	EFFECTIVE DATE August 15, 2013	SECTION NUMBER 705

***POLICY***

*When laws, regulations, or provisions of contracts or grant agreements are significant to audit objectives, auditors should design the audit methodology and procedures to provide reasonable assurance of detecting violations that could have a significant effect on the audit results.*

***PROCEDURES AND RESPONSIBILITIES***

Auditors-in-Charge are responsible for determining which laws, regulations and provisions of contracts or grant agreements are significant to the audit objectives and assess the risk of illegal acts or violations of provisions of contracts or grant agreements that could occur. Based on that risk assessment, the auditors design and perform procedures to provide reasonable assurance of detecting significant instances of illegal acts or violations of provisions of contracts or grant agreements.

**AUDITING STANDARDS**

For financial audits, AICPA standards and GAGAS require the following:

- Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from violations of provisions of contracts or grant agreements that have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- Auditors should be alert to situations or transactions that could be indicative of abuse, and if indications of abuse exist that could significantly affect the financial statement amounts or other financial data, auditors should apply audit procedures specifically directed to ascertain whether abuse has occurred and the effect on the financial statement amounts or other financial data.

For performance audits, GAGAS states:

- As stated above auditors should determine which laws, regulations, and provisions of contracts or grant agreements are significant to audit objectives and assess the risk that illegal acts or violations of provisions of contracts or grant agreements could occur. Based on that risk assessment, the auditors should design and perform procedures to provide reasonable assurance of detecting significant instances of illegal acts or violations of provisions of contracts or grant agreements.

For attestation engagements, AICPA standards and GAGAS require that:

- Auditors should plan and design the engagement to provide reasonable assurance of detecting fraud, illegal acts, or violations of provisions of contracts or grant agreements. Auditors should assess the risk and possible effects of material fraud, illegal acts, or violations of provisions of contracts or grant agreements on the subject matter of the attestation engagement. Based on that risk assessment, the auditors should design and perform procedures to provide reasonable assurance of detecting significant instances of illegal acts or violations of provisions of contracts or grant agreements.

## **IMPORTANCE OF AUDIT OBJECTIVES**

Audit objectives are key to determining the scope of the compliance testing to be performed. Objectives should be defined as precisely as possible to preclude unnecessary work, while still meeting the purpose of the audit. Audit objectives should be clearly stated and fully understood. Only those tests of compliance necessary to satisfy the audit objectives should be performed.

Where an assessment of compliance is called for by the audit objectives, the audit program must include steps and procedures that will provide reasonable assurance that the audited entity has adhered to the requirements of laws and regulations which, if not followed, could significantly affect the audit results. The risk that violations could occur may be affected by such factors as the complexity or newness of the laws, regulations, and provisions of the contracts or grant agreements. In planning the audit, auditors should consider risks due to fraud that could significantly affect the audit objectives and the results of their audit.

## **IDENTIFYING APPLICABLE LAWS AND REGULATIONS**

During the early phase of an audit where compliance assessments are called for by the audit objectives, auditors should identify the laws and regulations that apply to the subject area, and that might significantly affect responding to the objectives.

Sources of information that can help to identify applicable laws and regulations include:

- Officials of the audited entity
- Provisions of grants, cooperative agreements and contracts



- NEA General Counsel
- *Code of Federal Regulations*
- *United States Code*
- *Federal Acquisition Regulation*
- OMB guidance and other publications

## ASSESSING RISK

The probability or risk that noncompliance may occur and not be detected by existing internal controls are key factors in deciding how much compliance testing is required. For example, although an activity may be inherently risky to noncompliance, strong internal controls may reduce vulnerability to a relatively low level, thereby reducing necessary compliance testing to a relatively low level.

### Types of Risk

The types of risk are defined as follows:

- **Inherent risk** is the risk that material noncompliance with specified requirements could occur, assuming there are no related controls.
- **Control risk** is the risk that material noncompliance that could occur will not be prevented or detected on a timely basis by the entity's controls.
- **Detection risk** is the risk that the practitioner's procedures will lead him or her to conclude that material noncompliance does not exist when, in fact, such noncompliance does exist.

## Characteristics of Illegal Acts

In order to accurately gauge the inherent risk that noncompliance with laws or regulations relevant to audit objectives may occur without being prevented or detected, the auditor must be alert for "*characteristics*" of illegal acts. A characteristic is an observed control weakness, personal behavior, relationship, or deviation in record keeping that raises skepticism about the fidelity of a function in which there is an opportunity for illegal acts to occur.

Characteristics may be **opportunities**, such as: activities dominated and controlled by a single person or small group; or complex transactions.

Characteristics may also be **indicators**, such as: altered, missing, or otherwise suspect accounting records; unreasonable explanations to inquiries by auditors; auditee annoyance at reasonable questions by auditors; extravagant lifestyles of employees; or auditee tactics to delay the audit.

For each audit objective where a compliance assessment is necessary, auditors should document in the working papers any characteristics (opportunities or indicators) of potential illegal acts that are noted. Suspected illegal acts should be reported to the Inspector General immediately for a determination of whether that aspect of the audit should continue, or whether it should be suspended pending the results of an investigation. If the Inspector General approves continuing the audit, audit steps should be designed to determine whether the acts actually occurred and, if so, to determine the extent to which these acts affect the audit results.

### **Assessment of Fraud**

Audit team members should discuss among the team fraud risks, including factors such as individuals' incentives or pressures to commit fraud, the opportunity for fraud to occur, and rationalizations or attitudes that could allow individuals to commit fraud. Assessing the risk of fraud is an ongoing process throughout the audit and relates not only to planning the audit but also to evaluating evidence obtained during the audit. An attitude of professional skepticism in assessing these risks assists auditors in assessing which factors or risks could significantly affect the audit objectives.

When information comes to the auditors' attention indicating that fraud, significant within the context of the audit objectives, may have occurred, auditors should extend the audit steps and procedures, as necessary, to determine whether fraud has likely occurred and if so, determine its effect on the audit findings.

Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. Abuse does not necessarily involve fraud, noncompliance with provision of laws, regulations, contracts, or grant agreements.

Because the determination of abuse is subjective, auditors are not required to detect abuse in performance audits. However, as part of a GAGAS audit, if auditors become aware of abuse that could be quantitatively or qualitatively significant to the program under audit, auditors should apply audit procedures specifically directed to ascertain the potential effect on the program under audit within the context of the audit objectives. After performing additional work, auditors may discover that the abuse represents potential fraud or noncompliance with provisions of laws, regulations, contracts, or grant agreements.

## **Vulnerability Assessment**

A vulnerability assessment is the preferred technique of assessing the probability that applicable laws and regulations may not have been followed, and the internal control assessment shows the likelihood of such noncompliance being detected or prevented.

The vulnerability assessment evaluates (1) the inherent risk of a law or regulation to noncompliance and abuse before considering internal controls and (2) whether internal controls will prevent or detect noncompliance and abuse. Factors to be considered in assessing inherent risk include:

- Clarity and maturity of the law or regulation.
- Incentives or disincentives for compliance.
- Magnitude of transactions processed that are subject to the provisions of the law or regulation.
- Reasonableness and practicality of the law or regulation.
- Susceptibility of assets to improper use or theft.
- Management's commitment to compliance.

## **ASSESSING INTERNAL CONTROLS - PERFORMANCE AUDITS**

Internal controls must be assessed when necessary to satisfy the objectives of a performance audit. Once the auditor identifies inherent risks, an assessment must be made as to the effectiveness of the internal controls designed to prevent or detect noncompliance. Internal controls consist of policies and procedures that are followed to provide reasonable assurance that goals and objectives are met; resources are adequately safeguarded, efficiently used, and reliably accounted for; and, laws and regulations are complied with.

Where an internal control assessment is called for by the audit objectives, the auditor should:

- Identify and document internal control policies that management has designed to ensure that the relevant laws and regulations are complied with.
- Observe the control environment and document observations of unusual activities in the working papers.

- Identify key internal control procedures that management has established to achieve objectives.
- Test control procedures.
- Identify needed follow-on actions.

To re-emphasize, clearly defined audit objectives are critical in determining (1) **if** an assessment of compliance and internal controls is necessary, and (2) if so, the extent of the assessment and audit steps required. For every performance audit, the auditor should document in the working papers the determination as to whether compliance and internal control assessments are required in light of the audit objectives and the results of any required assessments.

## **ASSESSING INTERNAL CONTROLS - FINANCIAL AUDITS**

With respect to financial audits, AICPA standards and GAGAS require that, in all audits, auditors obtain an understanding of internal control sufficient to plan the audit by performing procedures to understand (1) the design of the controls relevant to an audit of financial statements and (2) whether the controls have been placed in operation. This understanding should include a consideration of the methods an entity uses to process accounting information because such methods influence the design of internal control. The extent to which computerized information systems are used in significant accounting applications, as well as the complexity of that processing, may also influence the nature, timing, and extent of audit procedures. Accordingly, in planning the audit and in obtaining an understanding of internal control over an entity's computer processing, auditors should consider such matters as:

- The extent to which computer processing is used in each accounting application.
- The complexity of the entity's computer operations.
- The organizational structure of the computer processing activities.
- The kinds and competence of available evidential matter, in electronic and in paper formats to achieve audit objectives.

### **Elements of Internal Control Structure**

An internal control structure consists of the (1) control environment, (2) accounting system, and (3) control procedures.

**Control Environment.** The control environment may be thought of as the overall attitude of management concerning the importance of control. This includes management's philosophy and operating style, the organizational structure of the audited entity, and management's control methods.

**Accounting System.** An entity's accounting system includes the methods and records established to identify, assemble, analyze, classify, record, and report transactions and to maintain accountability.

**Control Procedures.** Control procedures are those policies and procedures -- in addition to the control environment and accounting system -- established to provide reasonable assurance that specific objectives will be achieved. Examples of control procedures include: proper authorization of transactions; design, use, and control of accounting documents; protection of assets; segregation of duties; and independent checks.

### **Documenting Understanding of the Internal Control Structure**

Auditors should document in the working papers their understanding of the internal control structure. Methods of documentation include flowcharts, internal control questionnaires, and narrative descriptions. Auditors should use professional judgment in determining how best to document their understanding of the internal control structure.

### **Documenting Understanding of Information Systems Controls**

Understanding information systems controls is important when information systems are used extensively throughout the program under audit and the fundamental business processes related to the audit objectives rely on information systems. Information systems controls consist of those internal controls that are dependent on information systems processing and include general controls, application controls, and user controls.

Audit procedures to evaluate the effectiveness of significant information systems controls include (1) gaining an understanding of the system as it relates to the information and (2) identifying and evaluating the general, application, and user controls that are critical to providing assurance over the reliability of the information required for the audit.

Auditors should determine which audit procedures related to information systems controls are needed to obtain sufficient, appropriate evidence to support the audit findings and conclusions.

## **Assessing and Documenting Control Risk**

After considering inherent risk and understanding of the internal control structure, an assessment of relevant internal controls and the likelihood that such controls will be effective should be documented in the working papers. If maximum risk is assessed with little potential for a reduced level of assessment, the auditor should forgo testing of controls and proceed to substantive testing.

## **Tests of Controls and Reassessment of Risk**

If, after assessing control risk, it is determined that the internal control structure cannot be relied on, no tests of controls are required and auditors may proceed to substantive testing of accounts and balances. However, if the auditor believes that the internal control structure can be relied on, tests of controls are required. Testing consists of (1) evaluating implementation of the control system (are the controls in place?), and (2) testing the operational effectiveness of the controls by tracing a limited number of transactions through the system (are the controls working as intended?). Auditors should document these tests in the working papers.

Based on the results of the tests of controls, auditors should determine whether the initial assessment of control risk was accurate, and whether the controls are still considered reliable. This reassessment will determine the extent of substantive testing required to complete the audit.

## **Designing Substantive Tests**

Based on the assessment of inherent risk and control risk, the auditor should then determine an acceptable level of detection risk and design substantive tests accordingly. Substantive tests are detailed tests of transactions and the analytical procedures performed to detect material misstatements in account balances, transaction classes, and the disclosure components of financial statements; and, noncompliance with laws and regulations.

## RISK/TESTING RELATIONSHIPS

Risk and testing relationships with respect to evaluating compliance with laws and regulations and the adequacy of internal controls are shown in the table that follows:

ASSESS INHERENT RISK	EVALUATE INTERNAL CONTROLS	ASSESS CONTROL RISK	ASSESS VULNERABILITY AND DETERMINE TESTING EXTENT	ASSESS DETECTION RISK
HIGH	WEAK/HIGH		HIGH	LOW
	ADEQUATE/MODERATE		MODERATE TO HIGH	MODERATE
	STRONG/LOW		LOW TO MODERATE	HIGH
MODERATE	WEAK/HIGH		MODERATE TO HIGH	LOW
	ADEQUATE/MODERATE		MODERATE	MODERATE
	STRONG/LOW		LOW	HIGH
LOW	WEAK/HIGH		LOW TO MODERATE	LOW
	ADEQUATE/MODERATE		LOW	MODERATE
	STRONG/LOW		VERY LOW	HIGH

As the above table indicates, high inherent risk and weak internal controls require increased compliance testing. Reduced testing, while highly desirable given scarce audit resources, increases detection risk.

**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

Audit Policy and Procedures Manual Chapter 700 – Conducting Audits	SECTION TITLE	
	AUDIT SAMPLING	
	EFFECTIVE DATE February 15, 2007	SECTION NUMBER 706

***POLICY***

*OIG auditors will use judgmental sampling or statistical sampling techniques to obtain evidence when it is impractical, inefficient, or economically prohibitive to review all elements in a universe subject to audit. The most effective and economical sampling technique will be determined for each audit, or part of an audit.*

***PROCEDURES AND RESPONSIBILITIES***

The Auditors-in-Charge, in coordination with the audit supervisor, is responsible for defining sampling objectives and selecting the sampling technique to accomplish the objectives.

The sampling technique will vary with the audit objective. If the objective requires the auditor to express an opinion on some characteristic(s) of the total universe that is under review, statistical (probability) sampling will be employed. If the audit objective can be satisfied by some subjectively defined selection criteria, judgmental sampling will be employed.

**SCOPE AND DEGREE OF TESTING**

The scope and degree of testing is a matter of professional judgment. The decision will be influenced by such factors as: prior experience with the auditee or subject matter of the audit; and, the materiality and sensitivity of the transactions subject to review. The following general guidelines should be considered in selecting items to be tested and in determining the extent of the examination.

- All large transactions should be considered for examination ("*large*" is a relative term that will need to be defined based on the particular audit situation).
- Transactions of an unusual or sensitive nature should be reviewed.



## **JUDGMENTAL SAMPLING**

Judgmental sampling involves selecting items from a universe for examination based on some subjective decision made by the auditor. This sampling technique is mainly used when it is not necessary to generalize (project) the sample results to the universe. The technique may be used as a form of discovery sampling to increase the auditors' knowledge about certain portions of the universe (such as sampling to show vulnerability to noncompliance with laws or regulations, or weaknesses in internal controls). Also, auditors may deliberately select cases in a particular universe that represent the largest dollar amount or greatest potential for error. The sample results, however, must be used with care and may not be used to draw statistically defensible conclusions about an entire universe. If an estimate is derived from the results of a judgmental sample, the audit report should fully disclose the details of the sample and the basis of the estimate. The report should clearly demonstrate that while the sample is not a statistical sample, it is representative and the estimate is reasonable.

## **STATISTICAL SAMPLING**

Statistical sampling involves a random selection of items from a universe in such a way that personal bias or subjective considerations are eliminated; every item in the universe to which the sample results are to be generalized has an equal or known probability of being selected, and items are selected independently. It is used when the audit objective is to draw conclusions about a universe.

**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

Audit Policy and Procedures Manual Chapter 700 – Conducting Audits	SECTION TITLE	
	EXIT CONFERENCE	
	EFFECTIVE DATE February 15, 2007	SECTION NUMBER 707

***POLICY***

*At the conclusion of audit fieldwork, the audit team will present preliminary audit findings and recommendations to auditee representatives at an exit conference. The exit conference proceedings are to be documented in the working papers.*

***PROCEDURES AND RESPONSIBILITIES***

The audit team is responsible for explaining to the auditee's representatives that:

- The preliminary findings and recommendations presented at the exit conference may change after further audit analysis.
- The auditors are willing to consider any management explanations or clarifications of issues raised in the audit that they may wish to present.

The team should also explain the audit report process to the auditee's representatives.

A written record of the exit conference proceedings should be prepared and placed in the working papers. The date, time and place of the exit conference, and the names and titles of the auditee's representatives should be included in the record.

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<b>Audit Policy and Procedures Manual Chapter 800 – Content of Audit Reports</b>	SECTION TITLE	
	CONTENT OF AUDIT REPORTS	
	EFFECTIVE DATE August 15, 2013	SECTION NUMBER 801

***POLICY***

*The results of audits, attestation engagements and other reviews will be reported to management in writing or in some other retrievable form.*

*To provide for flexibility in reporting the results of audits and other reviews, standard report formats are not prescribed. However, OIG policy is to fully implement the applicable Government Auditing Standards of reporting for financial, attestation engagements and performance audits.*

***PROCEDURES AND RESPONSIBILITIES***

OIG auditors should read and become familiar with the standards of reporting for financial, attestation engagements and performance audits established by the Government Auditing Standards.

While standard report formats are not prescribed, what follows are the essential reporting elements that should be observed by the OIG staff.

**REPORT PRESENTATION**

Reports should be complete, accurate, objective, convincing, and as clear and concise as the subject matter permits.

**Reporting Confidential and Sensitive Information**

If certain pertinent information is prohibited from public disclosure or is excluded from a report due to the confidential or sensitive nature of the information, auditors should disclose in the report that certain information has been omitted and the reason or other circumstances that make the omission necessary. The auditors should consult with OIG General Counsel regarding any requirements or circumstances that may necessitate the omission of certain information. When circumstances call for the omission of certain information, auditors should evaluate whether this omission could

distort the audit results or conceal improper or illegal practices. Auditors may issue a limited use report containing such information and distribute the report only to those parties responsible for acting on the auditors' recommendations. The auditors should also determine whether public laws could impact the availability of classified or limited use reports and determine whether other means of communication with management and those charged with governance would be more appropriate.

## **EXECUTIVE SUMMARY**

For significant audits, it may be appropriate to synopsise the report in the form of an "*Executive Summary*." The purpose of the summary is to convey to the reader information on the major audit conclusions without the reader having to read the entire report. Generally, the summary should: identify the activity or entity audited, explain the purpose of the audit, and state the major audit conclusions. To the extent practicable, the audit conclusions should be related to the objectives established for the audit. For example, if the audit objective is to determine how well some management goal was achieved, the summary should present clearly the auditor's judgment of the degree to which the goal was achieved. Since the object of the report is to convey a constructive evaluation of the thing audited, audit conclusions, particularly adverse conclusions, should be presented employing the proper tone of voice.

Adverse conclusions should always be substantiated by findings in the report. Do not list or summarize individual findings. Instead, explain the general conditions disclosed by the audit in terms that place them in perspective, and bring out the materiality and significance of the audit results.

## **INTRODUCTORY COMMENTS**

An "*Introduction*" or some similarly captioned section of the report may be used to provide background information, and to describe the objectives, scope and methodology of the audit, the audit period, and the auditing standards followed. Also, information on the exit conference should be included when applicable. The extent of detail provided will depend on the nature and significance of the audit.

### **Background**

This section is used to help the reader understand the nature and size of the program, function, or activity audited, and any special problems, circumstances, or events related to the audit. For example, this section may include legislative implementing criteria affecting the program, function, or activity. Data on available resources, such as personnel and funding, may also be included. Care should be taken to include only that background information that is relevant to the audit performed.

## **Objective(s)**

Reports should state the objective(s) of the audit work performed in order to clearly place the reports content in the proper perspective. The auditors' summary conclusions should specifically address, in either a positive or negative fashion, each objective established for the audit. (See Section 702.)

## **Scope and Methodology**

The report should describe the coverage and the depth of the audit work performed, as well as the techniques used for gathering and analyzing evidence. This information should be tailored to describe the work actually done and should relate to the objectives established for the audit. It should, as applicable:

- Explain the relationship between the universe and what was audited;
- Identify the time period covered by the audit;
- Identify organizations and geographic locations at which audit work was conducted;
- Cite the kinds and sources of the evidence obtained, and the techniques applied to verify and analyze the evidence.

Any limitations on the scope of the audit should be identified and, when necessary for clarification, areas not examined or specifically excluded from the audit should be identified. Every effort should be made to avoid any miscommunications concerning the work that was done to achieve the audit objectives.

## **Audit Period**

The period during which the audit was conducted should be included in the audit report.

## **Statement on Auditing Standards**

A statement on the auditing standards followed should be included in the scope section of audit reports on both financial and performance audits. When the applicable Government Auditing Standards were followed, the report should include statements along the lines of the following:

### Financial Statement Audit

The examination was made in accordance with generally accepted Government Auditing Standards for financial audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to provide reasonable assurance that the financial statements were free of material misstatement.



## Performance and Financial Related Audits

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Any departures from applicable Government Auditing Standards should be explained in the report. The reason for the departure, and the known effect on the audit as a result of not following an applicable standard should be disclosed. The statement on auditing standards need not be qualified when standards that were not applicable were not followed.

### **Exit Conference**

The date of the exit conference, and the position/title of auditee personnel who participated in the conference should normally be included in the report.

## **GENERAL GUIDELINES ON FINDINGS AND RECOMMENDATIONS**

The following are some general guidelines on findings and recommendations. The guidelines should be applied, where appropriate, when developing and reporting findings and recommendations.

### **Purpose**

The Findings and Recommendations section of the report provides the reader a complete picture of each finding, including the condition disclosed by the audit, causative factors, adverse effects, and recommendations for corrective actions. This section should contain sufficient factual data to fully convince the reader that significant problems exist, that the major causative factors have been identified, and that the auditors' conclusions are valid. The presentation should be complete, but concise. In this regard, report writers and reviewers will have to use their professional judgment to decide when they have the proper balance between completeness and conciseness.

### **Titles**

Each finding should be given a brief title that identifies its subject matter.

## **Order of Presentation**

The findings should normally be presented in order of their significance. It is important that the findings reported be limited to those having a material effect on the auditee's operations or those of interest to higher management levels because of their broad application. Including unimportant findings can impair auditees' confidence in the OIG, make reports unduly long, and obscure the really important findings. All levels involved in report preparation should, therefore, apply professional judgment in deciding whether a finding is important enough to be included in the report.

## **Assumptions and Opinions**

If a comment in a finding represents the auditor's opinion or an assumption, it should be identified as such. The basis for the opinion or assumption should be explained in the report.

## **Statements or Representations by Others**

Information provided orally should be used with caution and only when germane to the finding. The source of the information should be clearly identified.

## **Names in Reports**

References that name individuals should not be included in findings or other parts of reports. Appropriate position titles may be used. Auditees' comments and reactions to findings should be credited to the responsible official by title or position to the maximum extent possible. If the identification of individuals by name is necessary for understanding or to effect corrective action, this information should be furnished separately to the auditee.

## **Tonal Quality**

Auditing might be thought of as the art of independently finding out what people are doing, evaluating their actions in the light of some standard, and, then, if change is warranted, getting them to do so. Simply telling people to change because the auditor thinks they should or because the "*regulations*" say they should, will not convince them sufficiently of the need to change. Enough information (evidence) has to be presented to demonstrate to the addressees of the report that the adverse condition described does in fact exist and to convince them that it is serious enough (significance) to make it worth the effort of trying to change or correct that condition. This is best accomplished through the use of "*tonal language*." Even though audit reporting involves criticism, the criticism must be presented in a constructive manner. Wording should not be sarcastic or antagonistic. The finding should merely state the facts in a forthright manner along with the auditor's conclusions.

## GUIDELINES ON PRESENTING FINDINGS

The presentation of findings in the report may vary depending on the nature of the audit, the report's intended audience, the sensitivity of the subject matter reported on, and other special circumstances. For these reasons, standard formats for the presentation of findings are not prescribed. The following, however, are general guidelines that may be adapted to fit particular reporting objectives and to satisfy the report presentation standard.

### Description of Finding

Normally, a finding consists of the: "*condition*" disclosed by the audit (what was found to be wrong or in need of improvement), "*criteria*" (what should be) that was applied to develop the condition, "*cause*" (reason for the condition), and "*effect*" (actual or potential harm resulting from the condition). Professional judgment will have to be exercised in determining the extent of detail that needs to be presented for each element of the finding in order to provide complete, accurate, objective and convincing reporting, while maintaining a clear and concise presentation.

### Presentation of Findings

The following should be considered in forming judgments concerning the presentation of findings.

- Condition. This element presents the significant problem identified by the audit. Normally, a clear and accurate statement of the condition evolves from the auditor's comparison of the results of fact-finding procedures with appropriate evaluation criteria.
- Criteria. Criteria are the standards, rules, or tests applied to measure performance in order to identify the condition. Published criteria may be quoted, summarized or paraphrased, depending on its length, relevance, and clarity. Some examples of criteria are:
  - Written requirements (laws, regulations, instructions, manuals, directives, etc.).
  - Independent opinion of experts outside of the audited activity.
  - Prudent business practice provided the practice cited as a criterion is a valid and logical standard to apply to the case in point.

- Good judgment (least desirable criteria). Good judgment or other subjective criteria should make sense, be logical, and convincing to the reader.
- Cause. Cause is the underlying action, lack of action, weakness, deficiency, or inadequacy leading to the condition. Identifying causes may be difficult in some cases, but a reasonable amount of effort should be exerted to get as close to the real cause(s) of the problem as possible in order to put the finding in perspective, make the finding convincing, and lead to a sensible, specific recommendation(s) for corrective action. It is difficult to devise a meaningful recommendation if the cause, or causes of a problem are not known.
- Effect. Effect is what has resulted, or could result from the condition identified in dollar or other terms. Effect answers the question: "*So what?*"

## **GUIDELINES ON PRESENTING RECOMMENDATIONS**

Each finding should contain one or more recommendations. They should be specific with respect to the actions that are needed to eliminate or reduce the condition(s) — they should address the cause or causes of the reported problems.

Recommendations should cover only the causative factors discussed in the finding, and should follow logically from what was presented in the finding. Background information or reasons for making the recommendations should not be included. Most important, recommendations should be reasonable, and their implementation should be practical.

## **FOLLOWUP ON PRIOR AUDITS**

The report should include a discussion of follow-up actions on audit recommendations made in prior audits that are related to the subject matter of the current audit. If appropriate corrective actions were taken on the prior recommendations, and the actions were lasting, so state in the current report. If the current audit shows that a condition previously reported continues to exist because adequate corrective actions were not taken on the prior recommendation(s), or the actions taken were not lasting, provide the following information in the current report:

- Title, report number and date of the prior report.
- Actions management agreed to take on the prior recommendation(s).
- Reference to the current condition reported as it relates to the prior condition.
- To the extent known, the reasons why only partial or no action was taken on the prior recommendation(s) or the reasons the action taken was not lasting.

Reasons action still needs to be taken to correct the condition reported. If the cause or causes of the condition reported in the current report are different from those existing at the time of the prior audit, this should be explained in the report. In this case, the conditions would not be treated as a repeat condition.

## **MANAGEMENT COMMENTS AND OIG EVALUATION**

Normally, management comments on findings and recommendations will appear only in final reports. Comments will either be obtained at the exit conference or through an official request for comments on the draft report. The Inspector General may request management comments before draft reports are issued if deemed appropriate.

The presentation in the final report of management comments on the draft report, and OIG's evaluation of the comments, will depend on the length and relevance of the comments, and on whether management agrees with the findings and recommendations. If the comments are brief and germane, they may be presented verbatim in the report. Otherwise, the comments should be summarized for presentation in the report. The full text of management's comments may be included in an appendix to the report at the discretion of the Inspector General.

If management's comments are summarized, the summary should be a fair representation of management's position. It should state whether management agreed or disagreed with the findings and recommendations, and the reasons for any disagreements. It should show the corrective actions management agreed to take on the recommendations, if applicable.

An extensive OIG evaluation need not be shown in the report when management expresses concurrence with the findings and recommendations and outlines responsive corrective actions that have been taken, or that are planned. A simple statement that summarizes the OIG's evaluation is generally sufficient.

When the OIG evaluation shows that a management position on a finding and/or a recommendation is not meritorious, a rebuttal will need to be placed in the audit report. The rebuttal should state the reasons for maintaining the audit position and explain, in convincing and objective terms, why the management position is at odds with the audit position. The reasoning presented in the rebuttal should be such that the reader is not faced with the task of deciding whether the management or auditor position is correct.

If the OIG evaluation of the management comments shows that a recommendation is not valid or no longer appropriate, the recommendation and related finding should be excluded from the final report. If a decision is made to include the full text of the management comments in the report, it may be appropriate to retain the recommendation in the report along with the OIG evaluation that resulted in dropping the recommendation.

## **GENERAL COMMENTS**

In some reports, it may be useful to include General Comments concerning observations made during the audit that may be of interest to users of the report; for example:

- Recognition of specific noteworthy accomplishments particularly management improvements in one program or activity that may apply elsewhere.
- Observations of conditions for which a recommendation is not appropriate, or timely, but which would be of interest to agency officials. The conditions might include outstanding or potential litigation, financial trends, potential budget overruns, or any other observations concerning potential or existing problem areas that required little, if any, audit analysis but that are relevant to the audit.

## **EXHIBITS**

Schedules, tables, charts, graphs and other documents that explain or supplement other parts of the report may be attached as Exhibits.

## **APPENDICES**

Lists, copies of correspondence and other documents that support the report may be attached as Appendices.

## **OTHER REPORTING REQUIREMENTS**

### **Auditor's Opinion on Financial Statements**

For financial and applicable financial related audits (e.g., audits of grants), the report should contain a statement of the auditor's opinion on the fairness with which the financial statements examined were presented. (See Attachment 801-A for an example of the auditor's opinion on financial schedules for a financial related audit.)

### **Report on Internal Controls**

The Government Auditing Standards require reporting on the review of internal controls.

Financial and Financial Related Audits. The report on internal controls should include as a minimum: (1) the scope of the auditor's work in obtaining an understanding of the internal control structure and in assessing the control risk; (2) the entity's significant internal controls or control structure including the controls established to ensure compliance with laws and regulations that materially affect the

- financial statements and results of the financial related audit; and (3) the internal control weaknesses identified by the audit. (See Attachment 801-B for an example of a report on internal controls.)
- Attestation Engagements. The report should disclose deficiencies in internal control, including internal control over compliance with laws, regulations, and provisions of contracts or grant agreements that are material to the subject matter of assertion.
- Performance Audits. Normally, internal controls are reviewed in relationship to the audit objectives established for the performance audit. Significant weaknesses in internal controls that are identified would be reported in findings as the cause of the deficient performance identified during the audit, along with recommendations for corrective action. A separate report on the review of internal controls is not normally required for performance audits; however, the audit report may include summary comments that draw attention to the review of internal controls and those findings that deal with breakdown in internal controls. (See Attachment 801-C for an example of a report summary on internal controls.)

## **Report on Compliance**

The Government Auditing Standards require reporting on tests of compliance with laws and regulations.

- Financial and Financial Related Audits. The report on compliance with laws and regulations is to contain a statement of positive assurance on those items which were tested for compliance and negative assurance on those items not tested. It should include all instances of noncompliance, and all instances or indications of illegal acts that could result in criminal prosecution that have been cleared for reporting by competent authority. (See Attachment 801-D for an example of a report on compliance.)
- Performance Audits. For audits that require an assessment of compliance with laws and regulations to satisfy an audit objective, audit findings should include all significant instances of noncompliance. Findings should identify the specific laws or regulations not complied with, and the cause and effect of the noncompliance. A separate report on the review of compliance with laws and regulations is not normally required, but, as in the case of the review of internal controls, the audit report may include summary comments that draw attention to findings that deal with noncompliance with laws and regulations.

## **Reporting Illegal Acts & Fraud**

Government Auditing Standards require the reporting of all instances of illegal or potentially illegal acts that could result in the audited entity, or an officer or employee of the entity to be subjected to criminal prosecution. The standards recognize, however, that certain disclosures may interfere with investigative and legal processes, subject implicated individuals to undue publicity, or subject the auditor to potential legal action. For these reasons, draft and final reports will not contain any reference to illegal acts without the express consent of the Inspector General.

When auditors conclude, based on sufficient, appropriate evidence, that fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse either has occurred or is likely to have occurred which is significant within the context of the audit objectives, they should report the matter as a finding. Whether a particular act is, in fact, fraud or noncompliance with provisions of laws, regulations, contracts or grant agreements may have to await final determination by a court of law or other adjudicative body.

When auditors detect instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that are not significant within the context of the audit objectives but warrant the attention of those charged with governance, they should communicate those findings in writing to audited entity officials. When auditors detect any instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that do not warrant the attention of those charged with governance, the auditors' determination of whether and how to communicate such instances to audited entity officials is a matter of professional judgment.

When fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse either have occurred or are likely to have occurred, auditors may consult with authorities or legal counsel (OIG General Counsel) about whether publicly reporting such information would compromise investigative or legal proceedings. Auditors may limit their public reporting to matters that would not compromise those proceedings and, for example, report only on information that is already a part of the public record.



***EXAMPLE, AUDITOR'S OPINION ON FINANCIAL SCHEDULES***

We have audited the costs claimed by Grantee X and reported to the NEA on Final and Interim Financial Status Reports (FSRs) for the five grants active during the period under audit (see Schedule 1). The expenditures for these awards are summarized in Schedules A-1 through A-5, which show reported financial results during each award's respective grant period.

We conducted our audit in accordance with the standards for financial related audits contained in the *Government Auditing Standards*, issued June 2003 by the Comptroller General of the United States, and, accordingly, included such tests of the accounting records and such other auditing procedures that we considered necessary for the specific circumstances.

In our opinion, Schedules A-1 through A-5 present fairly, in all material respects, the financial results of operations in conformity with NEA requirements except as noted under the questioned costs (See Section B). Consequently, we are recommending that Grantee X refund \$231,159.

**EXAMPLE, AUDITOR'S OPINION ON INTERNAL ACCOUNTING CONTROLS**

As part of our audit, we made a study and evaluation of Grantee X's system of internal accounting control to the extent we considered necessary to evaluate the system as required by the standards for financial related audits contained in the *Government Auditing Standards*. For the purpose of this report, we have classified significant internal controls in the following categories:

- General Administration
- Cash Receipts
- Cash Disbursements
- General Ledger
- Financial Reporting

The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on Schedules A-1 through A-5. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

Grantee X's management is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of control procedures. The objectives of an internal accounting control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly. Transactions that are properly authorized and recorded permit the preparation of financial statements in accordance with the award terms and conditions.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the above paragraphs would not necessarily disclose all material weaknesses in the system. Accordingly, we are not expressing an opinion on Grantee X's system of internal accounting control taken as a whole. However, our study and evaluation did disclose the following conditions that we believed to be material weaknesses.

A. Written Accounting Procedures Were Not Maintained

Grantee X maintained a chart of accounts, but did not maintain a manual for accounting policies and procedures.

RECOMMENDATION NO. 1

We recommend that the NEA require Grantee X to establish and maintain an accounting manual for its policies and procedures.

(Additional findings and recommendations would follow.)

***EXAMPLE, SUMMARY REPORT ON INTERNAL CONTROLS  
(Performance Audit)***

**INTERNAL CONTROLS**

Since our review of internal controls was limited as described in the Scope and Methodology section of this report, it would not necessarily disclose all material weaknesses in Program X's overall internal control system. However, the conditions reported on in Finding and Recommendations A of this report dealing with grant fund balances and other fund control problems, and Finding and Recommendations B dealing with noncompliance with Federal requirements concerning the evaluation of grant proposals constitute material internal control weaknesses that, unless corrected, should be reported in the year-end assurance statement on internal controls. As discussed in the Results of Review section of this report, our review also disclosed some nonmaterial internal control weaknesses that warrant corrective action.

***EXAMPLE, AUDITOR'S OPINION ON  
COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS***

Grantee X's management is responsible for complying with NEA requirements and other appropriate NEA and federal compliance requirements. In connection with the examination referred to above, we selected and tested transactions and records to determine Grantee X's compliance with those requirements. The purpose of our testing transactions and records was to obtain reasonable assurance that Grantee X had complied, in all material respects, with the appropriate laws and regulations.

The results of our tests indicated that for the transactions and records tested, Grantee X complied with the compliance requirements, except as noted below. Regarding the transactions and records that were not tested by us, nothing came to our attention to indicate that Grantee X had not complied with the appropriate compliance requirements.

Failure to Submit Required Reports

Grantee X failed to submit monthly and quarterly activity reports as required by CA 05-1. We found that Grantee X was also delinquent in filing such reports for previous CAs, which were closed out by the NEA Grants & Contracts Office. As a result, the NEA has no assurance that evaluators are being timely compensated for services rendered.

Recommendation No. 2

We recommend that the NEA require Grantee X to compile and submit, immediately, all required monthly and quarterly activity reports due as of the date of this audit report for ongoing CA 05-1.

(Other findings and recommendations would follow.)

**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

Audit Policy and Procedures Manual Chapter 800 – Content of Audit Reports	SECTION TITLE	
	REVIEW, APPROVAL AND RELEASE OF REPORTS	
	EFFECTIVE DATE	SECTION NUMBER
	February 15, 2007	802

***POLICY***

*Draft and final audit reports are to be reviewed and approved by the Inspector General prior to release to NEA managers. (See also Section 601-3.)*

***PROCEDURES AND RESPONSIBILITIES***

The IG is responsible for reviewing, approving and recommending the release to NEA managers' draft and final reports on both external and internal reports. The Inspector General may delegate this retained authority to other OIG staff members on a case-by-case basis.

Evidence of reviews and approvals are to be annotated on file copies of the reports or electronic audit work paper files.

**REISSUING AND REPOSTING REPORTS**

If, after the report issued, the auditors discover that they did not have sufficient, appropriate evidence to support the reported findings or conclusions, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the organizations requiring or arranging for the audits, and other known users, so that they do not continue to rely on the findings or conclusions that were not supported. If the report was previously posted to the auditors' publicly accessible website, the auditors should remove the report and post a public notification that the report was removed. The auditors should then determine whether to conduct additional audit work necessary to reissue the report, including any revised findings or conclusions or repost the original report if the additional audit work does not result in a change in findings or conclusions.

**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

<b>Audit Policy and Procedures Manual Chapter 800 – Content of Audit Reports</b>	SECTION TITLE	
	REPORT DISTRIBUTION	
	EFFECTIVE DATE February 15, 2007	SECTION NUMBER 803

***POLICY***

*Draft and final audit reports are to be distributed to NEA officials who are expected to take action on the audit recommendations or who may have an interest in the contents of the reports.*

***PROCEDURES AND RESPONSIBILITIES***

**DRAFT AUDIT REPORTS**

Drafts of internal and external audit reports are to be distributed for review and comment to all NEA officials who are expected to take action on the audit recommendations or who are referred to in the reports.

Each page of the report is to be stamped "***DRAFT.***" The Auditor-in-Charge is responsible for preparing a transmittal memorandum (it may be an email) requesting NEA officials to review and comment on the draft report. An example of a draft report transmittal memorandum is at Attachment 803-A.

**FINAL AUDIT REPORTS**

Final audit reports are to be dated and issued to the Chairman and/or the Audit Follow-up Official (AFO). Also, copies (emails) of the reports are to be distributed to all NEA officials who are expected to take action on audit recommendations or who are referred to in the reports. In addition, final reports are to be provided to other officials who may benefit from their contents.

The Auditor-in-Charge is responsible for preparing a transmittal memorandum forwarding the report to the Chairman and/or the AFO. Normally, the transmittal memorandum is a simple mechanism used to transmit an audit report from the Inspector General to the Chairman and/or the AFO. However, at times it may be used to communicate information, which is known to be of particular interest to the Chairman and/or the AFO, or to highlight a particular situation such as when the Agency and the Inspector General are not in agreement and resolution is being sought. An example of a final report transmittal memorandum is at Attachment 803-B.

In the case of a final external audit report, the Auditor-in-Charge is also responsible for preparing a letter to transmit the report to the auditee. The letter should be prepared for the signature of the IG. An example of a letter transmitting the report to the auditee is at Attachment 803-C.

## **RECORD OF DISTRIBUTION**

The transmittal letter will indicate those individuals that are to receive copies of the transmittal letter and the final report.

Within the OIG, copies of the transmittal letter and final report are placed in the report folder of the electronic file.



ATTACHMENT 803-A

MEMORANDUM

Date: January 30, 2007  
To: Director, Folk & Traditional Arts Program  
From: XXXXX  
Inspector General  
Subject: Draft Special Review Report on the X Institute, Oakland, California

The Office of Inspector General has conducted a review of the X Institute (Institute). Our findings and recommendations are outlined in the attached draft report.

Prior to issuing the final report to the grantee, we circulate the report to the affected NEA offices for review and comment.

We ask that you carefully review this report and notify us if we (1) omitted any pertinent information, and (2) were unaware of any conditions which have changed since the review was undertaken (e.g., changes in program guidelines).

As appropriate, your comments will be considered before the final report is issued.

The NEA Administrative Directive on "Audit Issuance, Resolution and Followup" establishes specific time frames within which various actions must be taken. In order to comply with these deadlines, we must receive your comments within ten days from the date of this memorandum. Please set forth your position on the report in the appropriate space below, and return February 10, 2007.

\_\_\_\_\_ I have read the report and have no comments.

\_\_\_\_\_ I have read the report and would like to make the following (attached) comments:

\_\_\_\_\_  
Name and Title

\_\_\_\_\_  
Date

MEMORANDUM

Date: January 30, 2007

To: Audit Followup Official

From: XXXXXX  
Inspector General

Subject: Special Review Report No. R-07-03 on the X Institute, Oakland, California

Attached is a copy of our review report on the X Institute.

In our opinion, at the time of our review, the Institute's accounting system, internal control and management policies provided reasonable assurance that it could adequately manage and account for grant funds in accordance with NEA requirements, the financial management standards prescribed by the Uniform Guidance, other applicable regulations and generally accepted accounting principles, except as follows:

- 1) The Institute failed to maintain time and effort reports supporting salary allocations;
- 2) The Institute claimed certain expenditures incurred outside the approved project period; and
- 3) The Institute failed to have a financial and compliance audit of its books and records.

Interested program offices and the Grants Office have reviewed a draft copy of this report. They had no significant comments except the Folk Arts office indicated they were sending in a site visitor to check on the progress of grant number 06-3400-0158.

Please review the final draft and let us know within three days of the above date. Do not hesitate to contact me if you have any questions about the report.

After the transmittal letter has been finalized and signed, we will date the report and forward the report to the Institute.

Attachments  
Report

803-4

ATTACHMENT 803-C

Dr. Grantee  
Executive Director

X Institute  
Oakland, California 94612

Dear Dr. Grantee:

The National Endowment for the Arts (NEA) Inspector General (IG) recently issued special review report no. SR-07-03 on NEA grants awarded to the X Institute (Institute) during the fiscal years 2005 - 2006. The objectives of the review were to determine the adequacy of internal controls, the accuracy of financial reports and the adequacy of procedures and controls to ensure compliance with Federal laws, NEA regulations and award conditions.

In the IG's opinion, the X Institute's accounting system, internal controls and management policies did provide reasonable assurance that the Institute could adequately manage and account for grant funds in accordance with NEA requirements, the financial management standards prescribed by OMB 2 CFR 200, other applicable regulations and generally accepted accounting principles. However, the Institute did not have adequate documentation supporting \$37,922 in salary and related costs and claimed \$15,197 in project expenditures incurred outside the approved project period for grant no. 06-3400-0158. No refund of Federal funds is required since the Institute met the matching requirements of the grant exclusive of the questioned costs.

The aforementioned deficiencies did cause the IG to make the following recommendations:

- 1) The NEA should require the Institute to determine if salaries were charged to the other awards listed on Exhibit A of the report and make the appropriate refund unless the Institute can document that salary charges were incurred for personnel engaged in grant-related activities; or the grants were overmatched exclusive of salary charges; and
- 2) The NEA should require the Institute to determine if costs charged to other NEA awards during the period under review had been incurred outside of the approved project periods. If so, the Institute should determine the amount of such charges and make the appropriate refund, in conjunction with recommendation no. 1 above, where appropriate.

In addition, the IG observed that the Institute does not have an annual financial and compliance audit of their records as required by the Uniform Guidance Accordingly, the IG has recommended that the Institute comply with those requirements.

Please review the report and provide us with any information or comments which you feel should be considered by the NEA in developing a position on the report findings and recommendations. Calling the auditor, referred to below, can facilitate this process.

You should address your response to Auditor A, CPA, National Endowment for the Arts, Office of Inspector General, 1100 Pennsylvania Avenue, N.W., Room 601, Washington, D.C. 20506. Mr. A can also be reached at (202) 682-5402. Mr. A's fax number is (202) 682-5649.

Sincerely,

Inspector General

Enclosure

cc: Chairman  
Senior Deputy Chairman  
Deputy Chairman for Management and Budget  
Director, Arts Education Program  
Director, Design Program  
Director, Folk & Traditional Arts Program  
Grants & Contracts Officer

**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

<b>Audit Policy and Procedures Manual Chapter 800 – Content of Audit Reports</b>	SECTION TITLE	
	REPORT REFERENCING	
	EFFECTIVE DATE February 20, 2009	SECTION NUMBER 804

***POLICY***

*Independent referencing is a documented review of an audit report by an auditor not previously assigned to or associated with the audit. (Due to the limited size of the OIG staff it may not be possible to assign an auditor not previously assigned or associated with the audit. Therefore, to ensure compliance with Government Auditing Standards, Section 3.5, the OIG established a Memorandum of Understanding between the NEA OIG and the National Endowment for the Humanities OIG. The Memorandum initiates an independent quality assurance program for audit related products completed by auditors of the respective OIG – see attached Memorandum under MOU folder of the OIG H Drive.) Referencing ensures that the audit report is complete and accurate, and is supported by adequate evidence in the workpapers.*

*All draft audit reports will be referenced and all questions raised by the referencer should be disposed of before the report is issued.*

*Referencing is solely a verification process; it is not an editorial process or a substitute for supervisory review.*

***PROCEDURES AND RESPONSIBILITIES***

**THE REFERENCER**

The Inspector General will designate the referencer. The referencer should be an auditor who was not previously assigned to or associated with the audit. Because of the limited number of auditors available to serve as referencers, however, it may be necessary in some cases to designate as referencer an auditor who was associated with the audit, but who was not responsible for the supervisory review of the final version of the draft report.

**REFERENCING PROCEDURES**

Referencing should occur only after supervisory review of the working papers and the cross-indexed final version of the draft report has been completed. If significant

revisions are made to the draft report, those changes should be referenced before the final report is issued. (In those instances where the IG wrote the report and did the audit, the supervisory review may be performed by a subordinate or a contractor.)

The referencer should verify that factual items in the draft audit report are supported by the cross-indexed working papers. For example:

- Numbers and dollar amounts are checked for accuracy. All numbers and dollar amounts set forth in schedule form in the report narrative, or shown on exhibits and schedules attached to the report, are footed, cross-footed, and checked to the supporting working papers.
- Factual statements are checked to ensure that they are factual, rather than allegations, suppositions, opinions, or conclusions.
- References to statutes, executive orders, regulations, and directives are checked to ensure that each reference is accurate.
- Names of organizations, places, and publications are checked to ensure that each name and its spelling is correct.
- Quotations are checked for verbatim accuracy and to ensure that they are not used out of context.

The referencer will examine:

- Narrative summaries in the report to determine if they are consistent with details provided in the report.
- Report findings to determine whether:
  - The condition, criteria, cause, and effect of the findings are supported by the working papers.
  - Report recommendations address the causes of the conditions found.
- Exhibits and appendixes to determine whether they are consistent with the body of the report.
- Grammar and the choice of words only if the report meaning is unclear and needs to be clarified.

## **REFERENCER NOTATIONS AND EXCEPTIONS**

The referencer should note on the draft report each factual item that was verified to the supporting working papers. This might be accomplished by placing a tick mark above the item that was verified.

If the referencer notes an exception to an item in the report, he/she should note the exception using the comment feature of AutoAudit or within the Word document. The reason for the exception should be clearly stated.

## **RESOLUTION OF REFERENCER EXCEPTIONS**

When referencing is completed, the draft report should be submitted electronically to the auditor responsible for the audit. The auditor should review each item and prepare additional working paper support or revised report language, as appropriate, and then note his/her response to each item.

The revised draft report should be returned to the referencer. The referencer should note his/her agreement or disagreement with the responses on the report and sign off as appropriate.

If there is a disagreement on some item, the referencer and the auditor should seek to resolve the issue. If resolution is achieved, the nature and facts of the agreement should be noted.

If resolution is not achieved, the referencer should refer the matter to the IG who makes the final decision on the matter.

After all changes are incorporated in the report, the referenced draft audit report and the should be retained in the working papers

After all changes are incorporated in the report, the referenced draft audit report, including the referencer's comments should be retained in the working papers. The reference should prepare a summary statement as to whether all issues were resolved and whether the audit documentation, based on the referencer's review, adequately supported the facts, conclusions, and recommendations included in the report.





**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

<b>Audit Policy and Procedures Manual Chapter 800 – Content of Audit Reports</b>	SECTION TITLE	
	REVIEW AND OVERSIGHT OF FINANCIAL STATEMENT AUDITS	
	EFFECTIVE DATE August 13, 2013	SECTION NUMBER 805

***POLICY***

*This chapter provides policies and procedures for the NEA Office of Inspector General (OIG) review and oversight of the independent public accountant (IPA) conducting the annual audit of NEA’s financial statements. This chapter implements the quality control program to ensure the guidance contained in the Financial Audit Manual (FAM), Section 650, “Using the Work of Others,” developed by GAO and the President’s Council on Integrity and Efficiency (PCIE), and the guidance for audits of Federal financial statements developed by the Office of Management and Budget (OMB) are met.*

*FAM 650 provides guidance in making the judgments necessary for the auditor to use the work of others, including the*

- *type of reporting (FAM 650.09-.10);*
- *evaluation of the other auditors’ or specialists’ independence and objectivity (FAM 650.11-.24);*
- *evaluation of the other auditors’ or specialists’ qualifications (FAM 650.25-.35);*
- *determination by the auditor on the level of review (FAM 650.36-.42 and FAM 650 A);*
- *documentation required for each level of IPA monitoring (IPA FAM 650-57 and FAM 650A and FAM 100); and*
- *a Financial Statement Audit Completion Checklist to be used as a tool to determine whether they have complied with GAGAS, OMB audit guidance, and the FAM.*

*The Chief Financial Officers (CFO) Act of 1990 requires the NEA Inspector General or an independent external auditor (as determined by the Inspector General) to audit the Agency's financial statements. This audit must be performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States.*

*The OIG contracts with an IPA to conduct NEA's financial statements audits. To fulfill its audit responsibilities under the CFO Act, the OIG will review the IPA's audit work to ensure that NEA's annual financial statement audits are performed in accordance with the contractual requirements, which includes the requirements that the audits are performed in accordance with:*

- *standards for financial audits contained in the Government Auditing Standards, and*
- *requirements of OMB Bulletin Number 07-04, "Audit Requirements for Federal Financial Statements," as amended.*

## **PROCEDURES AND RESPONSIBILITIES**

The COTR is authorized to perform the following activities under the contract:

- Interpret the Statement of Work;
- Direct the performance of the Contractor's efforts within the scope of the Statement of Work;
- Control all Government technical interface with the Contractor;
- Review and investigate any delays or proposed contract changes and make recommendations to the Contracting Officer regarding corrective action; and terms and conditions of the contract.

The COTR will work to ensure that all contractor personnel assigned to work at NEA or who will have access to NEA information systems are subject to the NEA "Identity Proofing and Registration Process."

- The extent of the review of the IPA's workpapers and supplemental testing will be based on (1) any standards or requirements pertaining to the audit, (2) results of prior reviews, and (3) concerns of OIG management.

The Inspector General, or designee, is responsible for reviewing the audit report and corresponding work performed by the IPA and COTR.

## ***Review Program***

A review program should be developed that provides for the:

- Evaluation of the IPA's independence and objectivity.
- Evaluation of the IPA's qualifications.
- Evaluation of the IPA's system of quality control.
- Review of the IPA's audit workpapers.
- Performance of supplemental tests (if required).

The extent of the review of the IPA's workpapers and supplemental testing will be based on (1) any standards or requirements pertaining to the audit, (2) results of prior reviews, and (3) concerns of OIG management.

The oversight of the IPA's performance of the annual financial statement audit is not a financial audit as described in Government Auditing Standards paragraph 1.19. That paragraph states, "...if the audit objective is to express an opinion on financial statements, the standards for financial audits apply." The objective of OIG's oversight is not to express an opinion on financial statements but to ensure the IPA meets contractual requirements when performing its audit.

The COTR will perform certain procedures and retain certain documentation as described in the GAO/PCIE FAM Section 650 A, "Summary of Audit Procedures and Documentation for Review of Other Auditors' Work," such as:

- Any correspondence and notes of a meeting should be maintained. (The COTR will work with the contractor to coordinate any meetings.)
- Copies of any letters or memorandums from the NEA to the contractor should be maintained.
- A copy of the Audit Planning Memo should be maintained.
- A copy of any draft reports should be maintained.
- A copy of the Auditor Independence should be maintained.
- A copy of the contract should be maintained.
- A copy of the auditors' resumes should be maintained.
- Any letters or reports to or from Congress should be maintained.

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.

### **Transmittal Memorandum**

The COTR will prepare a memorandum for the Inspector General's signature officially transmitting the IPA's audit reports to the NEA Chairman and the Senior Deputy Chairman. The memorandum will follow the format shown in the GAO Financial Audit Manual, Section 650 C, "Example Reports When Using the Work of Others." The memorandum will state that because the OIG did not perform an audit, the OIG does not express opinions on NEA's financial statements or internal control, or on whether financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996 (FFMIA); or conclusions on compliance with laws and regulations.

The report will also be sent to the CIGIE Audit Committee.

### **Close-out Memorandum**

The COTR will notify the Inspector General, or designee, when all contract requirements have been met. If IG agrees that the contract requirements have been satisfied, the COTR will prepare a closeout Memorandum for Record stating that the requirements have been met and the quality assurance review is complete. The COTR will then authorize the contracting officer to make final payment to the contractor. In addition, the

COTR is responsible for preparing the Past Performance Form and providing it to the Contracting Officer as additional documentation of the quality of work performed under the contract.

### **Tracking IPA's Audit Findings**

In addition to its audit reports, the IPA is also required to report various matters concerning NEA's internal control structure noted during the audit. The IPA reports its findings in the *Report on Internal Control*, the *Report on Compliance with Laws and Regulations*, and in management letters. The IPA classifies these findings as material weaknesses, significant deficiencies, or control deficiencies. As part of our oversight responsibilities, the COTR will monitor and report on management's progress in resolving audit findings identified by the IPA.

ATTACHMENT 805-A

**AUDITING STANDARDS CERTIFICATION AND CHECKLIST FOR OIG  
MONITORING OF FINANCIAL STATEMENT AUDITS PERFORMED BY  
AN INDEPENDENT PUBLIC ACCOUNTANT**

NAME OF ASSIGNMENT: \_\_\_\_\_

ASSIGNMENT NO.: \_\_\_\_\_

**COTR**

I have completed the attached checklist, and I certify that monitoring (or quality assurance review) of the audit work performed on this assignment in accordance with Government Accountability Office and Office of Management and Budget guidance, and NEA Office of Inspector General (OIG) policies and procedures, unless otherwise indicated below.

\_\_\_\_\_  
COTR/Date

**Inspector General/Designee**

I have reviewed workpapers, discussed the monitoring (or quality assurance review) of the audit with the COTR, and applied other supervisory methods needed to obtain assurance that the monitoring of the audit work performed on this assignment was conducted in accordance with Government Accountability Office and Office of Management and Budget guidance, and OIG policies and procedures. I have also reviewed the attached checklist. Any exceptions are indicated below.

\_\_\_\_\_  
Inspector General/Date

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**ATTACHMENT 805-B**

**CHECKLIST FOR OIG MONITORING OF FINANCIAL STATEMENT AUDITS  
PERFORMED BY AN INDEPENDENT PUBLIC ACCOUNTANT**

This checklist is appropriate when using the work of other auditors or the work of specialists to perform a full or partial audit of financial statements. The steps should be tailored to the circumstances and the planned level of review by explaining why certain steps are not applicable, modifying the steps, and adding additional steps.

	Yes	No	N/A	Reference (if appropriate)
<b>1. GENERAL</b>				
1.1 Did the COTR/OIG staff follow OIG Policy 8-5, <i>Review and Oversight of Financial Statement Audits</i> regarding the use of independent public accountants (IPAs) and monitoring of contract performance?				
1.2 Were internal quality assurance procedures (that is, checklist or other documents) followed for monitoring IPAs?				
<b>2. CONTRACTING PROCESS</b>				
2.1 If OIG issued a new contract or competitive task order during the review period, did the process address the following items: <ul style="list-style-type: none"> <li>- Qualifications and experience of the firm.</li> <li>- Qualification and experience of the proposed staff.</li> <li>- Technical approach.</li> <li>- The need for the auditor to use professional judgment.</li> <li>- Independence of the firm to consider any existing, ongoing, or planned non-audit services.</li> <li>- Request an explanation of the firm’s internal quality assurance system to include such items as workpaper review procedures, and continuing professional education requirements.</li> <li>- Request for the firm’s latest peer review report, related letter of comment, and the firm’s response to those comments.</li> </ul>				
	Yes	No	N/A	Reference (if appropriate)

<p>(Note: If the peer review is more than 1 year old, the COTR should inquire about the firm’s internal inspection program or equivalent and the results of the most recent review. If the firm will not provide specific information to the COTR’s request, the COTR should perform other procedures to assess the firm’s internal quality assurance procedures.)</p> <ul style="list-style-type: none"> <li>- Audit scope and objectives.</li> <li>- Requirement to perform the audit in accordance with Government Auditing Standards and other statutory, regulatory, or OMB requirements.</li> <li>- Establishment of milestones for completion of the audit (or major portions) and the submission of deliverables.</li> <li>- Provisions for the review of deliverables and access to the audit workpapers by the COTR.</li> </ul>				
<p>2.2 If OIG did not issue a new contract or competitive task order (that is, OIG exercised a contract option), did the COTR:</p> <ul style="list-style-type: none"> <li>- Update their assessment of the firm’s independence to consider any existing, ongoing, or planned non-audit services?</li> <li>- Update their understanding of the firm’s internal quality control system to consider such items as workpaper review procedures, and continuing professional education requirements?</li> <li>- Request a copy of the firm’s latest peer review report, related letter of comment, and the firm’s response to those comments?</li> </ul> <p>(Note: If the peer review is more than 1 year old, the COTR staff should inquire about the firm’s internal inspection program or equivalent and the results of the most recent review. If the firm will not provide specific information to the COTR’s request, the COTR should perform other procedures to assess the firm’s internal quality assurance procedures.)</p> <ul style="list-style-type: none"> <li>- Update their assessment of the other auditors’ qualifications including the qualifications of key staff?</li> </ul>				
	Yes	No	N/A	Reference (if appropriate)

<p><b>3. QUALITY ASSURANCE</b></p> <p>3.1 Did the COTR document in the files the planned level of review (low, medium, or high) at the overall and material line item level in accordance with FAM 650.36, and the reasons for their assessment?</p>				
<p>3.2 Did the COTR document in the files the planned extent of responsibility for reporting the results of the audit and the assessment of the IPA's conclusions?</p>				
<p>3.3 Is the level of planned reporting consistent with the level of planned review?</p>				
<p>3.4 During the performance of the audit did the COTR:</p> <ul style="list-style-type: none"> <li>- Meet with the firm to discuss the audit objectives and approach, and determine whether they are consistent with those in the contract and proposal.</li> <li>- Participate in the entrance conference.</li> <li>- Participate in status meetings and other meetings.</li> <li>- Review deliverables.</li> <li>- Perform site visits.</li> <li>- Periodically review the progress of the audit, discuss problems encountered, the need to revise milestones, and other significant audit results.</li> <li>- Perform supplemental tests (if applicable).</li> <li>- Review audit documentation (as applicable).</li> <li>- Obtain audit documentation, as needed, to validate the assertions made to ensure that: Extent of testing by the IPA was adequate. Sufficient, appropriate audit evidence was compiled and analyzed by the IPA to support its audit conclusions.</li> </ul>				
<p><b>4. COMPLETION OF THE AUDIT</b></p> <p>After completion of the audit (may also be performed in whole or part on an ongoing basis during the audit) did the COTR:</p>				



<p>- Review the IPA report(s) for compliance with Government Auditing Standards and other applicable requirements.</p>				
	Yes	No	N/A	Reference (if appropriate)
<p>Review the IPA working papers for compliance with Government Auditing Standards and other applicable requirements.</p> <p>(Note: The extent of review and maintenance of supporting documents by the COTR will depend on the planned level of review identified in step 3.1.</p> <p>-For financial statement audits, examples of the specific documents that should be reviewed and/ or maintained for each level of review can be found in the GAO/PCIE Financial Audit Manual Section 650 A.</p> <p>-Ensure that the report transmittal accurately reflects the extent of assurance of the OIG over the IPA’s work  <b>“expression of no assurance.”</b></p> <p>-Initiate final payment to the IPA.</p>				

MEMORANDUM

DATE: XXXX XX, 20XX

TO: XXX, Chairman  
XXX, Senior Deputy Chairman

FROM: XXX, Inspector General

SUBJECT: Auditors' Report on National Endowment for the Arts Financial Statements for the Years Ended September 30, 20XX and 20XX (Audit Report No. A-XX-XX)

We contracted with Leon Snead & Company, P.C. (CPAs), an independent certified public accounting firm, to audit the financial statements of the National Endowment for the Arts (NEA) for the fiscal years ended September 30, 20XX and 20XX. This financial statement audit of the NEA is required by Public Law 107-289, the Accountability of Tax Dollars Act of 2002. The contract required the CPAs to perform the audit in accordance with Government Auditing Standards and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

In the *Independent Auditors' Report*, the CPAs concluded that NEA's financial statements were fairly presented in all material respects and thereby issued an unqualified opinion on those statements. In the *Report on Compliance with Laws and Regulations*, the CPAs concluded that there were no instances of noncompliance by the NEA with applicable laws and regulations. In the *Internal Control Over Financial Reporting* section of this report, the CPAs identified two deficiencies related to the use of appropriations and calculation of imputed costs.

The OIG reviewed Leon Snead & Company's reports and related documentation and made necessary inquiries of its representatives. Our review disclosed no instances where Leon Snead & Company did not comply, in all material respects, with U.S. generally accepted government auditing standards. However, our review cannot be construed as an audit in accordance with U.S. Generally accepted government auditing standards. It was not intended to enable us to express, and we do not express, any opinion on the NEA's financial statements, conclusions about the effectiveness of internal control, or conclusions on compliance with laws and regulations. Leon Snead & Company is solely responsible for the attached auditor's report dated XXX and the conclusions expressed in the report.

This report is intended for the information and use of NEA management, OIG, Office of Management and Budget and the United States Congress, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation and courtesies extended to both Leon Snead and my staff during the audit.

Attachment

cc: National Endowment for the Arts Council  
Joan Shigekawa, Senior Deputy Chairman  
Winona Varnon, Deputy Chairman for Management and Budget  
Sandy Stueckler, Director of Finance

Attachment

**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

<b>Audit Policy and Procedures Manual Chapter 800 – Content of Audit Reports</b>	SECTION TITLE	
	TERMINATION PROCESSES AND DOCUMENTATION	
	EFFECTIVE DATE January 15, 2010	SECTION NUMBER 806

***POLICY***

*This chapter presents policies and procedures for processing and documenting the termination of audits and other reviews without issuing a report or other written document communicating formal findings and recommendations. The chapter implements the reporting guidance in paragraphs 4.8, 6.08 and 7.49 of the Government Auditing Standards (2007 Revision).*

**PROCEDURES AND RESPONSIBILITIES**

If an audit (financial, performance, attestation engagement) or review is terminated before it is completed and a report or other written documentation is not issued, the staff should complete the following steps:

1. The Auditor-in-Charge should prepare a memorandum for the record. The memorandum should contain the objectives of the assignment, description of work performed, conclusions reached for each objective, and the reason(s) for termination. The memorandum should be signed by the IG, or designee.
2. The Auditor-in-Charge/team should hold an exit conference with appropriate NEA managers and/or grantee to explain the reasons for terminating the audit or review, describe any observations arising from the work performed to date, and answer questions.
3. The Auditor-In-Charge should prepare a Termination Memorandum to the recipients of the original announcement with a concise explanation for termination, to be signed by the IG.

The Auditor-in-Charge is responsible for ensuring that all termination documents are prepared, routed for necessary concurrences or other input, transmitted and filed in accordance with OIG policy/procedure.

**AUDIT POLICY AND PROCEDURES MANUAL**

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**National Endowment for the Arts**  
**OFFICE OF INSPECTOR GENERAL**

Audit Policy and Procedures Manual Chapter 900 – Report and Recommendations Tracking	SECTION TITLE AUDIT REPORT ISSUANCE, RESOLUTION AND FOLLOWUP	
	EFFECTIVE DATE March 27, 2013	SECTION NUMBER 901

**POLICY**

The OIG will participate with NEA managers and the Audit Follow-up Official in resolving audit reports and recommendations to ensure that the full benefits of the audit effort are realized.

Management’s corrective action on resolved findings and recommendations is essential to improving the effectiveness and efficiency of NEA operations. The OIG and management will ensure that a report and recommendation tracking system is in place and operating effectively. Because report and recommendation tracking is an integral part of good management, it is a responsibility shared jointly by management and the OIG. Therefore, NEA’s management and the OIG shall jointly establish a tracking system that ensures proper resolution and implementation of audit recommendations. This system shall provide for a complete record of actions taken on both monetary and non-monetary findings and recommendations. NEA’s management and the OIG also are to ensure that audit recommendations are resolved within 180 days of issuance of the final report, or other resolution date approved by the Inspector General.

The OIG will follow-up on the implementation of recommendation(s) agreed to in the resolution process during regularly scheduled follow-up on audits. Special follow-up reviews may be scheduled as circumstances dictate.

***PROCEDURES AND RESPONSIBILITIES***

Recommendation resolution procedures are prescribed by OMB 2 CFR 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and NEA Administrative Directive 1410.

## I. DEFINITIONS

- A. **Audit.** An official examination of records or financial accounts, which is conducted in order to determine their accuracy and extent of compliance with applicable law, regulation, policy, and other standards. For purposes of this directive, “audit” applies to internal audits and external audits (including special reviews and oversight audit agency reviews).
- B. **Audit Follow-up Official (AFO).** A senior management official is assigned responsibility for ensuring that an adequate audit resolution/followup system is in place and operating effectively. The Deputy Chairman for Management & Budget is designated as the NEA’s AFO.
- C. **Corrective Action.** Measures(s) taken to implement resolved audit findings and recommendations.
- D. **Final Action.** Completion of all actions that management has concluded in its management decision are necessary with respect to the audit findings and recommendations. If management concludes that no action is necessary, final action occurs when the management decision is made.
- E. **Management Decision.** Management’s evaluation of the findings and recommendations contained in an audit report and the issuance of management’s final decision, including actions to be taken.
- F. **Questioned Cost.** Cost questioned by the OIG because of the following:
1. An alleged violation of a provision of a law, regulation, grant agreement, or other document governing the expenditures of funds;
  2. The cost is not supported by adequate documentation; or
  3. The expenditure of funds for the intended purpose is unnecessary or unreasonable.

A **disallowed cost** is a questioned cost that management has sustained or agreed should not be charged to the NEA grant or cooperative agreement.

- II. **ANNUAL AUDIT PLAN.** The annual audit plan identifies the organizations, programs, and activities which may be selected for audit. The audit plan is developed by the OIG as close as possible to the beginning of each fiscal year. Once finalized, the Inspector General meets with the Chairman to discuss it.

**III. RESPONSIBILITIES FOR AUDIT RESOLUTION.** To ensure that the audit findings and recommendations are adequately resolved in a timely manner, various NEA officials are assigned specific responsibilities.

**A. Audit Follow-up Official (AFO)**

1. The AFO ensures that a system of audit resolution is documented and in place, that timely responses are received on all final audit reports, and that corrective actions are actually taken.
2. The AFO ensures that management decisions on all audit recommendations are made within six months after the reports are issued.
3. The AFO ensures that final action on each audit recommendation is completed within prescribed time frames.
4. The AFO ensures that the Chairman's Semiannual Report to Congress on Final Action is prepared and forwarded to the Congress by the mandated deadlines of May 31 and November 30. (The Report indicates management decisions made and whether final action has been taken.)

**B. Office of Inspector General (OIG)**

1. The OIG maintains detailed records of the resolution process and keeps the AFO advised of the status of outstanding recommendations.
2. The OIG obtains and reviews responses from the auditee and develops a position as to whether the audit recommendations were adequately addressed.
3. The OIG prepares and submits a Semiannual Report to the Congress, through the Chairman, describing the OIG's activities for each six-month period ending September 30 and March 31.

**C. Directors of Affected Offices**

The heads of administrative offices and discipline area directors ("affected directors") provide timely written responses to the findings and recommendations in audit reports, whether internal audits of their operations or external audits of grantees, cooperators, or contractors.



#### D. General Counsel

The General Counsel reviews management decisions contrary to recommendations made in audit reports to ensure that resolution actions are consistent with applicable laws, regulations, and NEA policies. A written justification must be provided, including the legal basis for decisions not to seek recovery of amounts due as a result of the audit reports and for decisions not to enforce implementation of procedural recommendations in the audit reports.

#### E. Senior Deputy Chairman

1. The Senior Deputy Chairman may make management decisions regarding recommendations made in any internal audit reports of areas that are the responsibility of the designated AFO.
2. The Senior Deputy Chairman arbitrates any disputes among the OIG, the AFO, and the General Counsel.

### IV. INTERNAL AUDIT REPORTS.

#### A. Issuance of Internal Audit Reports

1. **Draft Reports.** The OIG will issue draft audit reports on NEA internal operations and activities to the affected directors for review and comment. Written responses must be submitted to the OIG within 10 days after issuance of the draft report; if a director declines to comment, the decision not to comment must be provided in writing within the 10-day review period. The **final audit report** will incorporate responses if considered appropriate by the OIG. Only the OIG may make changes to audit or review reports. In situations of a confidential nature or involving fraud, no draft reports will be issued unless the OIG considers it appropriate.
2. **Final Reports.** The OIG will issue a final audit report within 20 days after the draft review period. Final reports will be transmitted to the Chairman, the AFO, and affected directors.

## **B. Procedures for Internal Audit Reports**

The issuing of a final report by the OIG marks the start of a multi-step resolution process. Each step, and the number of days generally allowed for it, is described below. Regardless of how many days an individual step actually takes, the cumulative total should not exceed six months from the day the report was issued.

1. In addition to the final audit report, occasionally the OIG issues a separate memorandum to affected Offices. This memorandum provides a means for the OIG to communicate additional concerns that may not be appropriate for inclusion in the audit report. Affected directors will have 30 days after the date a report is issued to provide a written response to the AFO; the responses will be forwarded to the OIG. (Where audit findings and recommendations are applicable to offices under the AFO's control, the Senior Deputy Chairman may act as the AFO in resolving these matters.)
2. The OIG will review the formal responses from affected directors and develop a position as to whether the audit recommendations were adequately addressed. The OIG will forward its comments to the AFO within 30 days after receipt of the responses.
3. The AFO shall consider the OIG's comments and those of the affected directors in making a management decision on the audit recommendations. The decision must be in writing and contain a time frame if corrective action is required. The AFO's decisions must be made within 30 days after the OIG's position and comments are presented. Management decisions which are contrary to recommendations made in the audit reports must be forwarded to the General Counsel for review to ensure that resolution actions are consistent with applicable laws, regulations, and NEA policies.
4. The General Counsel must complete the legal sufficiency review and issue a written opinion within 30 days after management decisions are received. Any disputes among the OIG, the AFO, and the General Counsel shall be referred to the Senior Deputy Chairman for resolution. (Resolution of any disputes will be performed simultaneously with any other ongoing audit followup activities.) The OIG will report in the OIG's Semiannual Report to the Congress any significant management decisions with which the Inspector General disagrees.

5. Once decisions are made, the OIG is responsible for preparing a memorandum within 30 days, for the AFO's signature, to advise the affected supervisor of the audited area of the NEA's disposition of the audit recommendations. The OIG is responsible for transmitting the memorandum to the affected supervisor and to any offices whose operations may be affected when the recommendations are implemented.
6. The OIG and AFO will track recommendations to ensure they are implemented within established time frames.

## **V. AUDIT REPORTS.**

### **A. Issuance of External Audit Reports**

1. **Draft Reports.** The OIG will issue draft reports on audits, of NEA grantees or contractors to the affected Agency directors for review and comment. Other draft reports will be submitted to affect Agency directors for review and comments at the discretion of the OIG. Responses must be in writing and must be returned to the OIG within 10 days after receipt. A final report will be issued even if no comments are received. Responses will be evaluated by the OIG to determine if they have an effect upon the findings or recommendations. Only the OIG may make changes to audit reports. In situations of a confidential nature or involving fraud, the distribution of the draft reports will be limited or curtailed at the discretion of the OIG.

The draft report, incorporating the Agency's responses if considered appropriate by the OIG, will be sent to the auditee by email for review and comments. A transmittal with instructions for response will be attached. Responses must be in writing, on official letterhead, and must be returned to the OIG within 10 days after receipt. A final report will be issued even if no comments are received. If possible, the draft should be sent to the auditee before the final exit telephone conference.

If the auditee concurs with the findings and recommendations, the response may be summarized in the final report. If the auditee's comments are inconsistent or in conflict with the findings, conclusions and recommendations, the validity of the comments will be evaluated. If the conflict cannot be resolved, the auditee's response and the reason for the OIG's disagreement should be included in the report.

If the comments are valid and supported, the report will be modified as necessary. The official written response will be attached to the report.

2. **Final Reports.** The OIG will issue final reports within 20 days after the draft review period. The **final audit report** will incorporate responses if considered appropriate by the OIG. Final reports will be transmitted to the auditee by email and US Mail. The final report will be issued separately by email to the AFO and affected directors.

## **B. Resolution Procedures for External Audit Reports**

The issuing of a final report by the OIG marks the start of a multi-step resolution process. Each step, and the number of days generally allowed for it, is described below. Regardless of how many days an individual step actually takes, the cumulative total should not exceed six months from the day the report was issued.

1. The OIG will prepare a transmittal letter that will accompany the audit report to the auditee. The letter will require the auditee's response within 30 days. The auditee's response to the OIG should indicate any corrective action planned or implemented as a result of the audit, provide sample documents where possible, and provide any additional comments it has regarding the audit report.
2. The OIG will evaluate the auditee's response to determine if it has adequately addressed the auditors' recommendations.

### **a. No Response from Auditee**

- (1) If the auditee does not respond within 30 days, the OIG will contact the auditee to determine if they need a 30-day extension of time. If contact is not possible, the OIG will send a followup letter (signed by the AFO) to the auditee indicating that if they fail to respond within the next 30 days, resolution of the recommendations will proceed without benefit of their comments, and this might prejudice future awards. (A copy of the followup letter will be sent to the appropriate NEA officials.)
- (2) If the auditee fails to respond within 60 days, a letter will be sent under the AFO's signature indicating that resolution is proceeding without the benefit of their comments, that the NEA assumes they concur with the auditors' findings, and that any recommended

recovery of funds will be pursued. Moreover, the auditee will be advised that its failure to respond will be considered a relevant factor in the review of any future applications received from the organization. (A copy of the followup letter will be sent to the appropriate NEA officials.)

- (3) If no response is received within another 20 days, the OIG will so advise the AFO and the following determination on the disposition of the audit report shall be made by the AFO:

"Based upon the auditee's failure to respond to the report, the NEA has administratively cleared all procedural recommendations and is seeking the cost recoveries recommended in the audit report. In taking this action, the auditee organization and its principals will not be eligible to receive any future NEA awards (including grants, cooperative agreements, and contracts), any awards in process will be held in abeyance, and any payments in process will be withheld until all procedural recommendations are implemented and recommended cost recoveries are made or resolved. Before the auditee and its principals can be eligible for future awards, it will be necessary for the auditee to provide appropriate documentation to verify that all recommendations have been implemented and are working satisfactorily, and there has been satisfactory disposition of cost recoveries."

This determination will be coordinated with the affected directors during the 20-day period. Any disputes among the OIG, the AFO, and the General Counsel shall be referred to the Senior Deputy Chairman for resolution. (Resolution of any disputes will be performed simultaneously with any other ongoing audit followup activities.)

- (4) The OIG will prepare a letter for the AFO's signature advising the auditee of the NEA's disposition of the auditor's recommendations and, if appropriate, directing that recommended refunds be made within 30 days after the date of the letter. The auditee, including its principals, will be advised of the restriction on future grants or contract awards and the withholding of payments in process until the matter is resolved. Copies of this letter will be forwarded to affected directors to ensure that its provisions are implemented.

In addition, should the NEA decide to take debarment or suspension actions, the NEA's debarring official will notify those parties who have been debarred, suspended, voluntarily excluded, or determined to be ineligible. The General Services Administration (GSA) also will be notified of such action.

- (5) The OIG will notify the Finance Office, Grants & Contracts (G&C), and other Agency offices as appropriate, of any management decisions for the following:
- Requiring the recovery or de-obligation of funds from an auditee,
  - Change in eligibility status of recipients to receive or apply for funding, and/or
  - Recoveries or de-obligations affecting multiple awards to a recipient and a determination of how the recovery is to be applied to each award.

The Finance Office will establish accounting and collection controls over amounts determined to be due as a result of audits. The AFO will notify the Finance Office if the auditee agrees to reimburse the NEA on the installment method instead of one lump sum payment. The Finance Office will notify the OIG, the AFO, and G&C when payment is received from the auditee or when the amount is recovered by other means.

The Finance Office will also notify G&C of the following:

- The amount of the payment to be applied to the principal, as applicable;
  - In the case of recoveries affecting multiple awards to a recipient, how the recovery is to be applied to each award (as previously determined jointly by the OIG and the AFO).
- (6) If the auditee fails to remit the amount due, the Finance Office shall refer the matter to the U.S. Department of the Treasury for collection according to NEA's interagency agreement with Treasury. The OIG will track the cost recoveries until final action has been completed.

**b. Response Received from Auditee**

- (1) The OIG will evaluate the auditee's response(s) to determine if they adequately address the recommendations. The OIG must review the response within 30 days after receipt. The OIG will contact the auditee if additional information is required. If so, the auditee will be given additional time to submit documentation, and the recommendation(s) will be placed on a tracking list until the documentation is received.
- (2) For recommendations involving acceptance of late reports; amending the scope or period of grants, cooperative agreements, and contracts; or reviewing auditee justifications to support questioned costs, the OIG will forward the appropriate information to the affected directors, including the Grants & Contracts Officer, for their comments and recommendations. The OIG will advise the affected directors of possible alternatives in making these decisions and will provide additional information required to interpret financial matters. The affected directors must complete their reviews and return their written responses to the OIG within 20 days.
- (3) Within 20 days after receiving the affected directors' recommendations, the OIG will prepare a memorandum for signature of the AFO to make a management decision on the disposition of any questioned costs, and a letter for the AFO's signature to advise the auditee of the NEA's disposition of the audit recommendations. When appropriate, the decision memorandum will list alternatives for disposition of the recommendations and a recommended time frame for implementation of corrective procedures so that final action can be taken. The audit findings and recommendations, auditee's response, OIG's comments, and recommendations from the affected directors will be attached to the decision memorandum. The AFO must make the management decisions within 20 days after receipt of the decision memorandum from the OIG. The OIG will be responsible for mailing the letter to the auditee and distributing copies to affected directors and other Federal and State agencies as applicable.
- (4) Management decisions that are contrary to audit recommendations must be forwarded to the General Counsel to ensure that the resolution actions are consistent with laws,

regulations, and NEA policies. The General Counsel must complete the legal sufficiency review and issue an opinion within 20 days after the management decisions are received. The Senior Deputy Chairman will resolve disputes among the OIG, the AFO, and the General Counsel. The Senior Deputy Chairman must resolve the dispute promptly. (During the period the Senior Deputy Chairman is resolving any dispute, other audit followup matters will continue, to ensure that resolution is completed within 180 days.) The OIG will report any significant management decisions with which the Inspector General disagrees in the OIG's Semiannual Report to the Congress.

- (5) The OIG will notify the Finance Office, G&C, and other Agency offices as appropriate, of any management decisions requiring the recovery or de-obligation of funds from an auditee. The Finance Office will establish accounting and collection controls over amounts determined to be due as a result of audits. The AFO will notify the Finance Office if the auditee agrees to reimburse the NEA on the installment method instead of one lump sum payment. The Finance Office will notify the OIG, the AFO, and G&C when payment is received from the auditee or when the amount is recovered by other means. The Finance Office will notify the OIG when expected payments are not received on time, and any amount of the payment to be applied to interest or penalties, as applicable.
- (6) The Finance Office will also notify G&C of the following:
  - a. The amount of the payment to be applied to the principal, as applicable;
  - b. In the case of recoveries affecting multiple awards to a recipient, how the recovery is to be applied to each award (as previously determined jointly by the OIG and the AFO).

If the auditee fails to remit the amount due, the Finance Office shall refer the matter to the U. S. Department of the Treasury for collection according to the NEA's interagency agreement with Treasury. The OIG will track the cost recoveries until final action has been completed.

- (7) G&C will notify the OIG of any recipients not in compliance with alternative method of funding or other special requirements imposed as a resolution to OIG audit findings.



- (8) The OIG and AFO will track recommendations to ensure they are implemented within established time frames.
- (9) If an audit recommendation that requires corrective action involves another Federal Agency or level of government, the OIG will coordinate corrective action with the other affected organization.

**VI. REVIEW RESPONSIBILITY.** The Inspector General will provide periodic evaluations of the adequacy of the audit followup system to determine if it results in efficient, prompt, and proper resolution and corrective action on audit recommendations.

**AUDIT POLICY AND PROCEDURES MANUAL**

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**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

Audit Policy and Procedures Manual Chapter 1000 – AD HOC Memorandums	SECTION TITLE	
	AD HOC MEMORANDUMS	
	EFFECTIVE DATE February 16, 2007	SECTION NUMBER 1000

***POLICY***

*As may be directed by the Inspector General, ad hoc memorandums pertaining to the operations and activities of the OIG are to be incorporated into this policy and procedures manual.*

***PROCEDURES AND RESPONSIBILITIES***

The Inspector General is responsible for designating the ad hoc memorandums to be included in the policy and procedures manual.

OIG staff members are responsible for incorporating the memorandums in their copies of the manual.

OIG staff members may recommend to the Inspector General topics that they believe should be the subject of an ad hoc memorandum.

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**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

<b>Audit Policy and Procedures Manual Chapter 2000 – Investigative Procedures</b>	SECTION TITLE	
	INVESTIGATIVE PROCEDURES	
	EFFECTIVE DATE June 15, 2015	SECTION NUMBER 2000

***POLICY***

*The Inspector General Act Amendments of 1988 mandate that an Office of Inspector General (“OIG”) be established within the National Endowment for the Arts (“NEA”) to independently perform audits and investigations to detect and prevent waste, fraud, and abuse in the operation of NEA programs. This has been accomplished with respect to the audit activity. However, the NEA OIG has a very limited investigative capability. At the present time, it is not feasible to retain a full-time investigator. Therefore, in accordance with Section 601 of the Economy Act of 1932, as amended, 31 U.S.C. 1535, and pursuant to the Inspector General Act of 1978, as amended, and further pursuant to Public Law 504, 100<sup>th</sup> Cong., the NEA OIG can request such information or assistance as may be necessary for carrying out the duties and responsibilities provided by this Act from any Federal, State, or local governmental agency or unit (appropriate agency) thereof. Currently NEA OIG has a MOU for investigative services with another Federal OIG.*

*The NEA OIG may also participate in joint-agency investigations which includes competent staff and other resources to accomplish the objectives. Individuals assigned to conduct the investigative activities must collectively possess professional proficiency for the tasks required.*

***PROCEDURES AND RESPONSIBILITIES***

**Inter-agency Contacts**

The NEA IG, or a designee, and the relevant agency's IG, Assistant IG for Investigations, or a designee, will be the sole contacts for their respective agencies in matters of policy and procedures, implementation of the agreement, and the provision of investigative services and advice related to an inquiry or investigation.

The NEA IG will initiate, or give prior approval for, all referrals to the Department of Justice, or state or local law enforcement organizations for the contemplated or actual prosecution of alleged offenders.

## 1. Types of Consultative Assistance

- a. The NEA IG may call upon another agency to conduct preliminary inquiries or formal investigations of allegations of waste, fraud, and abuse. A preliminary inquiry is one that normally will involve interviews with those making the allegations or those likely to have knowledge of the events/actions in question. Generally, a preliminary inquiry will not involve interviews with possible suspects or involve formal gathering of evidence or affidavits.
- b. A formal investigation is one in which, as appropriate, witnesses or others with relevant knowledge will be sworn, subpoenas issued, and evidence gathered.

## 2. Requests for Investigative Assistance

- a. When in the judgment of the NEA IG investigative services are required, a written request for such will be made of the relevant agency. Subject to the availability of investigative resources, an investigator will be assigned to the matter by the relevant agency for a definite period of time in order to render such assistance. The investigator will, however, remain available to their agency should his/her presence be necessary at any future juncture (e.g., to provide testimony). The investigator will also be available to conduct their agency's business during those times when he or she is not assisting the NEA IG.
- b. Any investigator who is assigned to provide services in response to a NEA IG request for assistance shall be skilled in prosecution of an investigation of the sort of allegations at issue.

Requests for assistance of an investigator during the process of a preliminary inquiry or a formal investigation must be in writing and include a statement of the particulars of the case at issue so as to provide the relevant OIG investigator as much background information as possible prior to the initiation of his/her duties.

The relevant agency will complete an Interagency Agreement or similar document, with an estimated cost and submit to the NEA IG, or designee, to approve and obligate necessary funds before commencement of work.

## Duration of Services

The NEA IG will make every effort, consistent with the proper investigation of allegations, to minimize the periods during which it will utilize the relevant agency's personnel. In this respect, investigative assistance shall occur, to the greatest extent possible, over a fixed period of time; the period may be extended by the mutual written consent of both OIGs. The relevant agency may terminate the arrangement for investigative services upon reasonable notice to the NEA when the relevant agency determines that doing so would be in that office's best interest.

### 5. Adherence to Professional Standards

Investigative services provided to the NEA IG under a request initiated and agreed upon, in writing, shall conform to the applicable professional standards governing investigations (e.g., CIGIE's *Quality Standards for Investigations*) as mutually determined by the OIGs.

### *Handling Suspected Fraud or Illegal Acts*

Whenever OIG staff suspect that fraud or illegal acts may have occurred, the staff should report the matter promptly to the Senior Auditor or IG. The Senior Auditor, in coordination with the Inspector General, will assess the suspicion and, if warranted, hold preliminary discussions with the investigative staff of the relevant agency to determine whether a formal fraud/illegal acts referral should be made.

If the IG believes a referral is warranted, the Senior Auditor will prepare (for IG signature) a referral addressed to the appropriate official for the investigative agency that fully explains the issue(s) being referred and the rationale for referring. A referral should include as much information as possible. It may include a description of the activity or program being reviewed; the name, title, and telephone number of the investigator with whom the potential fraud or illegal act was discussed; the names and telephone numbers of the Auditor or Senior Auditor responsible for the assignment; the date; assignment number; and status of the assignment, including the status of any draft or final reports. All documentations should be electronically stored on the IG drive under Final Reports and Followup and logged on the appropriate spreadsheet (Report Recommendations or Whistleblower-Hotline-FOIA log).

## Effect of Fraud/Illegal Act Referral on Review

The Auditor, Senior Auditor and IG should determine, in conjunction with the relevant agency investigative official the effect that the fraud/illegal act referral will have on either continuing the assignment or on the scope of the assignment. ***No discussions concerning the suspected fraud or illegal act should be held with officials of the activity being audited/reviewed or contractor officials without the approval of the IG and the OIG Counsel.***

### Reports

The Senior Auditor should ensure that all reports covering assignments in which a fraud/illegal act referral has been made are coordinated with the IG, OIG Counsel and the investigator, prior to issuance. When the resulting investigation will delay issuance of the report and it is necessary to alert NEA management of control weaknesses or of other actions that need to be taken (such as delaying payments to grant recipients), a management memorandum covering these issues may be issued with the approval of the IG and the OIG Counsel.

### Maintaining Referral Files

The Auditor who originated the fraud/illegal act referral is responsible for maintaining a file that includes a copy of the referral and information on the status of actions taken by investigators. The Senior Auditor is also responsible for coordinating with investigative counterparts to ensure that all referrals are appropriately disposed of through either a report of investigation or a closure memorandum.

## ALLEGATIONS

### A. Definition of Allegation

An allegation is any information that indicates a violation of law, regulations, award conditions, or policies; mismanagement; waste of funds; abuse of authority; or fraud. For OIG purposes, an allegation is a statement, sometimes offered without proof that asserts inappropriate activity or wrongdoing. The term allegation also covers instances where there is “evidence of” or “good reason for concern about” an activity. Information may be general in nature, such as citing a deficient program operation, or it may be specific, identifying individuals, contractors, or other entities engaged in questionable activities. Allegations come from complainants.



## B. Discussing the Identity of a Complainant Outside of NEA OIG

The identity of a complainant should not be discussed with anyone outside of OIG without first discussing it with the IG or designee or General Counsel and then obtaining the consent of the complainant.

## C. Sources of Allegations

Allegations are received from various sources: NEA employees, the OIG Hotline, other OIG offices, other government agencies, awardees, private citizens, newspapers and publications, confidential and anonymous sources, and walk-ins.

NEA employees must report to the OIG allegations of misconduct, fraud, waste, abuse, or corruption involving NEA, NEA employees and NEA award recipients or sub-recipients. NEA employees are automatically afforded confidentiality pursuant to the IG Act when they report allegations to the OIG. Such protection may, as a matter of policy, be extended to non-NEA employee complainants by granting them confidential source status.

NEA employees who report allegations to the OIG may also be covered by the Whistleblower Protection Act, but that coverage can only be assessed by the US Office of Special Counsel. If the Office of Special Counsel confers whistleblower status upon the individual, it then is a violation of law to retaliate against that individual as a result of the reporting of the allegations. Once this status is conferred, the individual's identity cannot be disclosed without the Special Counsel's and the individual's consent. In other situations, the US Office of Special Counsel might grant confidentiality to certain persons prior to referring the matter to the OIG.

### 1. The OIG Hotline

The OIG Hotline is an anonymous, toll-free telephone line provided primarily to receive allegations. The Hotline number is 1-877-535-7448. Staff monitor the telephone Hotline during duty hours and either take the call or transfer the caller to another member of the IG staff. During non-duty hours, the Hotline is answered by an answering machine that identifies itself as the OIG Hotline; gives instructions on how to register an allegation; and allows the caller to leave a short message. Notification of messages is automatically emailed to the Senior Auditor.

## 2. The OIG E-Mail Account

The OIG E-mail account is an e-mail account that anyone can use to send information to OIG. The account is [oig@arts.gov](mailto:oig@arts.gov). This account is not anonymous. Assigned staff monitor the inbox, conduct an initial assessment of the content, and forward any substantive messages to Senior Auditor or the IG or General Counsel, as appropriate.

## 3. The OIG Internet Reporting Form

The OIG online form for reporting fraud, waste and abuse can be found at <https://apps.nea.gov/oighotline/>. Reporting forms may be submitted anonymously. Form are submitted electronically to the OIG email account. All staff monitor the OIG inbox, conduct an initial assessment of the content, and forward any substantive messages to Senior Auditor or the IG or other General Counsel, as appropriate.

## 4. Other Reporting Method

Allegations/concerns may also be reported by US Mail, the NEA OIG direct telephone line 202-682-5479 or by fax 202-682-5649. Staff monitor the phone and or inbox, will conduct an initial assessment of the content, and forward any substantive messages to Senior Auditor or the IG or other General Counsel, as appropriate.

## D. Receipt of Allegations

An allegation should first be assessed to determine if it describes a reasonable issue. If it does not present a reasonable issue, and where appropriate, indicate the reason for the decision not pursue on the Hotline Intake Form or prepare a brief note explaining your reason and then provide it to the senior Auditor or IG for approval.

If the allegation merits review, complete the Hotline Intake Form, found on the IG SharePoint, detailing the relevant information, such as complainant, subject, and allegation.

For detailed steps for handling Hotline Complaints see SEC-2100.

**AUDIT POLICY AND PROCEDURES MANUAL**

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**National Endowment for the Arts  
OFFICE OF INSPECTOR GENERAL**

Audit Policy and Procedures Manual Chapter 2100 – Hotline Procedures	SECTION TITLE	
	HOTLINE PROCEDURES	
	EFFECTIVE DATE June 15, 2015	SECTION NUMBER 2100

***POLICY***

The Hotline provides a prompt, effective method for the National Endowment for the Arts (NEA) employees, contract personnel, customers, and private citizens to report incidents of fraud, waste, abuse, and misconduct within the NEA to the Office of Inspector General (OIG).

*The OIG Hotline was established in June 2009, as a vital communications link between the OIG and the NEA stakeholders to receive complaints from employees, customers, and the general public. Complaints include alleged fraud; waste of funds or resources; abuse of authority, misconduct; violations of laws, rules, or regulations; and/or danger to health and safety involving NEA programs and policies, employees, and contractors.*

Complaints and allegations received by the Hotline are first looked at individually, and then analyzed to identify systemic issues affecting the NEA. This information is also used to identify ways to improve operations. The Hotline does not replace formal avenues of problem resolution such as the Equal Employment Opportunity complaint procedures. The Hotline does not conduct research for callers to answer complex or inappropriate questions, or to provide advice, legal or otherwise.

***PROCEDURES AND RESPONSIBILITIES***

**Phone Complaints**

The caller will be asked questions designed to screen and route the calls the Hotline does not handle to the appropriate resources. If it is before or after the normal business hours or the Hotline is busy, the caller will be directed to leave a message. Notifications for Hotline messages are automatically emailed to the Senior Auditor.

Staff will conduct thorough caller interviews. Questions such as, “Tell me what happened. **Who** did what? **Who** else knows about this? **Where** and **When** did they do it? **How** did they do it and **Why**? **What** action has been taken? Is there anything else

that we need to know?” will be asked. This information is needed to prepare a report that appropriately addresses the caller’s concerns. Callers will be informed that results will only be posted if the investigation results in a report. The OIG does not provide followup information on active audits or investigations. The caller should be directed to the OIG website at <http://arts.gov/oig/audits-and-reviews>. All hotline calls will be immediately log on the Hotline/FOIA tracking spreadsheet, on the H drive/IG/Concerns-Investigations-Inquiries. All required information should be completed on the spreadsheet, including the disposition and date cleared.

Phone complaints are quickly analyzed to determine who is best able to address the issues. If the complaint or allegation is not one the OIG handles, the caller will be referred to the appropriate authority or agency.

If the OIG handles the complaint, staff will conduct a telephone interview like the one described above. If the complainant is a NEA employee, *the employee should be asked if confidentiality is requested*, explaining the confidentiality policy (see Investigative Procedures Section 2000). Notes taken are then typed into the Hotline Intake Form found on the OIG shared drive.

### **Mail or Fax**

An intake form should be completed for complaints mailed or faxed. The complaint letter, or fax and intake and request forms should be scanned into a folder (named by complaint organization) on the H drive/IG/Concerns-Investigations-Inquiries/Completed Hotline Reporting forms. Any subsequent documents should be added to the file.

- If the complaint is referred to another NEA organization or outside agency, the original document and a copy of the complainant’s letter are sent with a referral letter/email to the appropriate organization.
- If the complaint or allegation is one the OIG accepts, the case will be assigned to an OIG staff by the IG or Senior Auditor.
- If the complaint or allegation is one the OIG neither refers nor takes action on, a summary of disposition should be included on the intake form.

The final disposition should be recorded on the Hotline Intake Form for all inquiries or allegations and signed off by the IG or Senior Auditor.

Email complaints are answered with standard responses the first business day following receipt. Emails need no write ups for outside referrals and follow the guidelines for letters and faxes about write ups. However, pdfs of any responses by email should be placed in the appropriate folder on the IG drive.

All correspondence, letters, faxes, and emails, should be initially responded to within 5 business days of receipt or date stamp.

General Information:

**Cases, at the Inspector General's discretion, may be referred for Evaluation, Audit or investigation.**

**Quick Reference for Hotline Calls:**

- FOIA Requests  
Office of General Counsel  
National Endowment for the Arts  
1100 Pennsylvania Avenue, NW, Room 518  
Washington, DC 20506  
202/682-5418 (fax) 202/682-5572 (email) [arts\\_foia@nea.gov](mailto:arts_foia@nea.gov)
- Civil Rights/EEO  
202 682-5454 (fax) 202 682-5553 room 219  
Additional information regarding Federal antidiscrimination, whistleblower protection, and retaliation laws can be found at the EEOC Web site--  
<http://www.eeoc.gov> and the OSC Web site--<http://www.osc.gov>.

**Other agency referrals**

- ID theft, [www.consumer.gov/idtheft](http://www.consumer.gov/idtheft)
- Better Business Bureau, [www.bbb.org](http://www.bbb.org)
- Department of Labor problems ([www.dol.gov](http://www.dol.gov)),
- Internet fraud, ([www.ic3.gov](http://www.ic3.gov)), etc., - supply the Website or email address of the appropriate agency.

A sample response follows:

*Thank you for contacting the NEA, Office of Inspector General Hotline. Allegations involving any type of (internet fraud) are under the jurisdiction of the (Internet Fraud Complaint Center (IFCC, the Federal Bureau of Investigation (FBI), and the National White Collar Crime Center (NW3C)). You can access information about how to contact the (IFCC) and file a complaint at or (<http://www.ic3.gov>).*

*Italics are examples of one set of responses*

- **OIG Issues** – The complaint will be directly assigned a case number and a file prepared. A sample response is:

*Thank you for contacting the NEA, Office of Inspector General Hotline. Your concern(s) has been received and documented. If additional information is necessary, someone will contact you soon.*

The above responses can be tailored and used for responses to email inquiries/complaints.

- **Other Miscellaneous Issues** – refer the caller to the appropriate discipline or official or refer to NEA main line. For assistance, ask the Inspector General.

Telephone: 202-682-5400

Voice/TTY: 202-682-5496

Email: [webmgr@arts.endow.gov](mailto:webmgr@arts.endow.gov)

- **Allegations regarding IG or Staff**

If the complaint is regarding any OIG staff, the allegation should be immediately referred to the IG. If the allegation is regarding the IG, the complaint to be immediately provided to the OIG Counsel and the CIGIE Integrity Committee for further instructions.

<https://www.ignet.gov/content/integrity-0>