UNITED STATES GOVERNMENT LIBRARY OF CONGRESS

Memorandum

Office of the Inspector General

TO: Ambassador John O'Keefe
Executive Director
Open World Leadership Center

July 29, 2014

FROM: Kurt W. Hyde *Kurt W. Hyde*
Inspector General

SUBJECT: Results of the Open World Leadership Center
FY 2013 Financial Statements Audit

The attached report presents the results of the annual audit of the Open World Leadership Center's (Open World) financial statements for fiscal year (FY) 2013.

We contracted with the independent certified public accounting firm of CliftonLarsonAllen, LLP (CLA) for the audit. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards; Office of Management and Budget Bulletin 07-04 *Audit Requirements for Federal Financial Statements*; and the GAO/PCIE[1] *Financial Audit Manual*.

In its audit of Open World, CLA found:

- The financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- There were no material weaknesses or significant deficiencies in internal control[2] over financial reporting (including safeguarding assets), and
- There were no instances of noncompliance with laws and regulations it tested.

[1] The Government Accountability Office and the President's Council on Integrity and Efficiency.

[2] A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Open World's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

In connection with the contract, we reviewed CLA's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on Open World's financial statements or conclusions about the effectiveness of internal controls or conclusions on compliance with laws and regulations. CLA is responsible for the attached auditor's report dated June 10, 2014 and the conclusions expressed in the report.[3] However, our review disclosed no instances where CLA did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Attachment

[3] In accordance with generally accepted auditing standards, CLA's report is dated based on the last day sufficient audit evidence was obtained to support their opinion. CLA's final report was delivered to the Office of the Inspector General on July 7, 2014 and final workpapers were delivered for review on July 28, 2014.

INDEPENDENT AUDITORS' REPORT

Inspector General
Library of Congress

Board of Trustees
Audit Committee
Open World Leadership Center

In our audits of the fiscal years (FY) 2013 and 2012 financial statements of the Open World Leadership Center (the Center), we found:

- The financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S.);
- No material weaknesses in internal control over financial reporting; and
- No instances of reportable noncompliance with certain provisions of applicable laws, regulations, contracts, and grant agreements tested.

The following sections discuss in more detail: (1) these conclusions, (2) Management's Discussion and Analysis (MD&A) and other required supplementary information (RSI), included with the financial statements, (3) management's responsibilities, (4) our responsibilities, and (5) the current status of prior year findings.

Report on the Financial Statements

We have audited the accompanying financial statements of the Center, which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of net cost and changes in net position, the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements. The objective of our audits was to express an opinion on the fairness of these financial statements.

Management's Responsibility for the Financial Statements

The Center's management is responsible for the (1) preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the U.S. and (2) design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We also conducted our audits in accordance with Office of Management and Budget (OMB) Bulletin No. 14-02*, Audit Requirements for Federal Financial Statements* (OMB Bulletin 14-02).

In order to fulfill these responsibilities, we (1) obtained an understanding of the Center and its operations, including its internal control over financial reporting; (2) assessed the risk of financial statement misstatement; (3) evaluated the design and operating effectiveness of internal control based on the assessed risk; (4) tested compliance with certain provisions of laws, regulations, contracts and grants, as applicable; (5) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (6) evaluated the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management; (7) evaluated the overall presentation of the financial statements; (8) conducted inquiries of management about the methods of preparing the RSI and compared this information for consistency with management's responses to the auditors' inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from Federal Accounting Standards Advisory Board (FASAB) guidelines, if any, identified by these limited procedures; and (9) performed such other procedures as we considered necessary in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of September 30, 2013 and 2012, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

<u>Required Supplementary Information</u>

Accounting principles generally accepted in the U.S. require that the Center's MD&A on pages 1 through 3, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control or on management's assertion on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control or on management's assertion on internal control included in the MD&A.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Report on Compliance

As part of obtaining reasonable assurance about whether the Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests, disclosed no instances of noncompliance or other matters that are required to be reported in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States or OMB Bulletin 14-02.

Management's Responsibility for Internal Control and Compliance

Management is responsible for: (1) evaluating the effectiveness of internal control over financial reporting, (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, and (3) ensuring compliance with applicable laws, regulations, contracts and grant agreements.

Auditors' Responsibilities

We are responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) testing compliance with certain provisions of laws, regulations, contracts and grant agreements that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin 14-02 requires testing, and (3) applying certain limited procedures with respect to the RSI included with the financial statements.

We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to the Center. We limited our tests of compliance to certain provisions of laws, regulations, contracts and grant agreements that have a direct and material effect on the financial statements and those required by OMB Bulletin 14-02 that we deemed applicable to the Center's financial statements for the FY ended September 30, 2013. We caution that noncompliance with laws, regulations, contracts and grant agreements may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

CliftonLarsonAllen LLP

Calverton, Maryland
June 10, 2014