UNITED STATES GOVERNMENT LIBRARY OF CONGRESS

Memorandum

Office of the Inspector General

June 30, 2015

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

FROM: Kurt W. Hyde
Inspector General

SUBJECT: Results of the Open World Leadership Center
FY 2014 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 years (FY) 2014 and 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; the Office of Management and Budget Bulletin 07-04, *Audit Requirements for Federal Financial Statements*; and the GAO/PCIE *Financial Audit Manual*. There are three components to this report—CLA's opinion on the financial statements, its report on internal controls, and assessment of compliance with laws and regulations.

Opinion on the Financial Statements
In its audit of Open World, CLA found that the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.

Report on Internal Controls over Financial Reporting
CLA's consideration of internal controls over financial reporting resulted in the identification of certain deficiencies in internal control, which CLA considered a material weakness.[1] CLA found that Open World failed to record obligations appropriately in FY 2014. While Open World

[1] 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 the Library'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.

executed an original agreement in FY 2011, obligations made for amendments/modifications related to this original agreement were recorded during FY 2014 without documentary evidence to support the amendments/modifications. Open World did not have the proper internal controls in place to prevent obligations from being recorded when no documentary evidence existed to support such action.

Compliance with Laws and Regulations

As part of obtaining reasonable assurance about whether Open World's financial statements are free from material misstatement, CLA performed tests of its compliance with certain provisions of laws and regulations, and contracts and grant agreements. As discussed above, CLA found that Open World failed to execute agreements/amendments as documentary evidence prior to recording obligations as required by 31 U.S. Code § 1501 – Documentary evidence required for Government obligations. This issue resulted in CLA reporting it as an issue of non-compliance with laws and regulations.

Office of the Inspector General Oversight of CLA

In connection with the audit contract, the Office of the Inspector General 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, opinions on Open World's financial statements, conclusions about the effectiveness of internal controls, and compliance with laws and regulations. CLA is responsible for the attached auditor's report dated April 15, 2015 and the conclusions expressed in the report.[2] However, our review disclosed no instances where CLA did not comply in all material respects with generally accepted government auditing standards.

Attachment

[2] In accordance with U.S. 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 June 12, 2015.

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Inspector General
Library of Congress

Board of Trustees
Audit Committee
Open World Leadership Center

Report on the Financial Statements

We have audited the accompanying financial statements of the Open World Leadership Center (the Center), which comprise the balance sheets as of September 30, 2014 and 2013, 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.

Management's Responsibility for the Financial Statements

The Center's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.) and the 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.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02*, Audit Requirements for Federal Financial Statements* (OMB Bulletin 14-02). Those standards and OMB Bulletin 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

We are also responsible for applying certain limited procedures with respect to the required supplementary information and other information included with the financial statements.

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, 2014 and 2013, 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

Required Supplementary Information
Accounting principles generally accepted in the U.S. issued by the Federal Accounting Standards Advisory Board (FASAB) require that the Center's Management Discussion and Analysis (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 FASAB, 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 MD&A 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. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

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 Entity'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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control, described below that we consider to be a material weakness.

Inappropriate Recording of Obligations

The Center failed to record obligations appropriately in fiscal year (FY) 2014. While the Center executed an original agreement in FY 2011, obligations made for amendments/modifications related to this original agreement were recorded during FY 2014 without documentary evidence to support the amendments/modifications. The Center did not have the proper internal controls in place to prevent obligations from being recorded when no documentary evidence existed to support such action. As a result, the Center is not fully compliant with 31 U.S. Code § 1501 – Documentary evidence required for Government obligations, where U.S. government obligations should be recorded only when supported by documentary evidence of a binding agreement. The Center intends to develop a corrective action plan to ratify the original agreement to cover the lapsed timing for when obligations were made with no binding agreement in place.

Recommendations

1. Ensure management corrective action plan is responsive to the control weakness identified, is approved by key officials, and implemented timely.

2. We also recommend the Center establish policies and procedures, ensuring obligations are recorded only when documentary evidence supports the existence of a binding agreement, thereby creating a legal liability on behalf of the Center to make payments immediately or in the future.

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 consistent with our professional responsibilities discussed below. The results of our tests disclosed instances of noncompliance, described below, that are required to be reported in accordance with *Government Auditing Standards*.

Inappropriate Recording of Obligations

As discussed above within the *Report on Internal Control over Financial Reporting,* we noted instances where the Center failed to have executed agreements/amendments as documentary evidence prior to recording obligations as required by the requirements of 31 U.S.C. § 1501 – Documentary evidence required for Government obligations.

Management's Responsibility for Internal Control and Compliance

The Center's management is responsible for the 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. Also, management is responsible for ensuring the Center complies 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, and (2) testing compliance with certain provisions of laws, regulations, contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts and applicable laws and regulations for which OMB Bulletin 14-02 requires testing.

We did not evaluate all internal controls relevant to operating objectives, such as those controls relevant to preparing statistical reports and ensuring efficient operations. 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, regulations, contracts and grant agreements 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 determination of financial statement amounts and applicable laws and regulations for which OMB Bulletin 14-02 requires testing. 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. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Management's Response to Findings

The Center concurred with our findings, and noted that management was informed of ongoing contractual discussions and work performed by the contractor via receipt of copies of correspondence between the vendor and Center staff. While the Center acknowledges that such correspondence was insufficient to obligate the agency, the Center has implemented a process to ensure full compliance in the future.

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

CliftonLarsonAllen LLP

Calverton, Maryland
April 15, 2015