United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General

Report of Audit

Quality Control Review of Grant Thornton LLP

Report Number AUD/CG-05-41, September 2005

~~IMPORTANT NOTICE~~

~~This report is intended solely for the official use of the Department of State or the Broadcasting Board of Governors, or any agency or organization receiving a copy directly from the Office of Inspector General. No secondary distribution may be made, in whole or in part, outside the Department of State or the Broadcasting Board of Governors, by them or by other agencies or organizations, without prior authorization by the Inspector General. Public availability of the document will be determined by the Inspector General under the U.S. Code, 5 U.S.C. 552. Improper disclosure of this report may result in criminal, civil, or administrative penalties.~~

United States Department of State
and the Broadcasting Board of Governors

Inspector General

PREFACE

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its responsibility to promote effective management, accountability, and positive change in the Department of State and the Broadcasting Board of Governors.

This report is the result of an assessment of the strengths and weaknesses of the office, post, or function under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

The recommendations therein have been developed on the basis of the best knowledge available to the OIG and, as appropriate, have been discussed in draft with those responsible for implementation. It is my hope that these recommendations will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of those who contributed to the preparation of this report.

Howard J. Krongard
Inspector General

Summary

The Department of State is the cognizant federal funding agency for Meridian International Center (Meridian). The Office of Inspector General (OIG) performed a quality control review of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, audit of Meridian performed by Grant Thornton LLP for the fiscal years ended September 30, 2003, and September 30, 2004. The objectives of the review were to (1) ensure that the Meridian FY 2003 and FY 2004 OMB Circular A-133 audits were conducted in accordance with applicable standards and met the single audit requirements, (2) identify any follow-up audit work needed, and (3) identify issues that may require management attention.

OIG determined that Meridian's A-133 audit reports and associated Grant Thornton LLP working papers met the applicable auditing guidance and regulatory requirements specified in OMB Circular A-133, its related compliance supplement, government auditing standards, and generally accepted auditing standards. Therefore, no follow-up action is required.

Background

A key responsibility of Offices of Inspector General is to assure the quality of single audits and other audits performed by nonfederal auditors. This responsibility is specifically mandated in the Inspector General Act of 1978, as amended. The act requires federal Inspectors General to "take appropriate steps to assure that any work performed by non-federal auditors complies with the standards established by the Comptroller General."

OMB Circular A-133 establishes the federal audit and reporting requirements for nonprofit organizations. The circular requires that the cognizant agency obtain or conduct quality control reviews of selected audits made by nonfederal auditors and provide the results, when appropriate, to other interested organizations.

On December 19, 2003, Grant Thornton LLP issued an audit report on Meridian for the fiscal year ended September 30, 2003. Grant Thornton LLP issued an unqualified opinion on the financial statements and the Schedule of Expenditures of Federal Awards. The auditors found no instances of noncompliance in the financial statement audit that are required to be reported under government auditing standards. Also, the auditors noted no matters that were considered to be material weaknesses involving internal controls relating to the financial statement or major programs. They did note matters involving internal control over financial reporting that were described in the schedule of findings and questioned costs. In addition, the auditors noted that Meridian did not comply with requirements that are applicable to certain grants with the Department of State.

On January 7, 2005, Grant Thornton LLP issued an audit report on Meridian for the fiscal year ended September 30, 2004. Grant Thornton LLP issued an unqualified opinion on the financial statements and the Schedule of Expenditures of Federal Awards. The auditors found no instances of noncompliance in the financial statement audit that are required to be reported under government auditing standards. Finally, the auditors noted no matters that were considered to be material weaknesses involving internal controls relating to the financial statement or major programs.

Purpose, Scope, and Methodology

OIG's primary purpose was to (1) ensure that the Meridian FY 2003 and FY 2004 OMB Circular A-133 audits were conducted in accordance with applicable standards and met the single audit requirements, (2) identify any follow-up audit work needed, and (3) identify issues that may require management attention.

OIG reviewed Grant Thornton LLP's OMB Circular A-133 audit reports on Meridian for the fiscal years ended September 30, 2003, and September 30, 2004, and the related working papers.

OIG performed the review using the 1999 edition of the Uniform Quality Control Review Guide for A-133 Audits. The guide is to be used by all federal agencies when conducting quality control reviews of OMB Circular A-133 audits. The guide was issued by the President's Council on Integrity and Efficiency for the purpose of performing the quality control review procedures. OIG reviewed the audit for compliance with OMB Circular A-133, *Government Auditing Standards* issued by the Comptroller General of the United States, and generally accepted auditing standards issued by the American Institute of Certified Public Accountants (AICPA). OIG reviewed the audit programs, the audit documentation, and the compliance and substantive testing performed.

OIG reviewed the most recent peer review letter, dated November 21, 2002, issued by KPMG LLP, which found that Grant Thornton LLP's system of quality control for its accounting and auditing practices met the objectives of the quality control review standards established by the AICPA and that Grant Thornton LLP complied with the standards during the year ended May 31, 2002.

OIG conducted fieldwork in Vienna, VA, on July 12, 2005. The Office of Audits, Contracts and Grants Division conducted this review.

Review Results

OIG's review of the following qualitative aspects of the single audits disclosed no issues requiring audit follow-up or management attention.

- Auditor Qualifications
- Independence
- Due Professional Care
- Quality Control
- Planning and Supervision
- Federal Receivables and Payables
- Determination of Major Programs
- Schedule of Expenditures of Federal Awards
- Audit Follow-Up
- Reporting
- Internal Controls and Compliance Testing for Major Programs
- Data Collection Form

OIG determined that Meridian's A-133 audit reports and associated Grant Thornton LLP working papers met the applicable auditing guidance and regulatory requirements specified in OMB Circular A-133, its related compliance supplement, government auditing standards, and generally accepted auditing standards. Therefore, no follow-up action is required.

FRAUD, WASTE, ABUSE OR MISMANAGEMENT
of Federal programs
and resources hurts everyone.

Call the Office of Inspector General
HOTLINE
202/647-3320
or 1-800-409-9926
or e-mail oighotline@state.gov
to report illegal or wasteful activities.

You may also write to
Office of Inspector General
U.S. Department of State
Post Office Box 9778
Arlington, VA 22219
Please visit our website at oig.state.gov

Cables to the Inspector General
should be slugged "OIG Channel"
to ensure confidentiality.