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

Report of Audit

Quality Control Review of KPMG LLC

Report Number AUD/CG-05-27, March 2005

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Office of Inspector General

PREFACE

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, Section 209 of the Foreign Service Act of 1980, the Arms Control and Disarmament Amendments Act of 1987, and the Department of State and Related Agencies Appropriations Act, FY 1996. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its oversight responsibility with respect to the Department of State and the Broadcasting Board of Governors to identify and prevent fraud, waste, abuse, and mismanagement.

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 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.

A handwritten signature in cursive script, appearing to read "Cameron R. Hume".

Cameron R. Hume
Deputy Inspector General

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SUMMARY

As the cognizant federal funding agency for the American Institute in Taiwan (AIT), the Department of State, 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 performed by KPMG LLP for the fiscal year ended September 30, 2003. The objectives of the quality control review were to (1) ensure that the AIT FY 2003 OMB Circular A-133 audit was 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 AIT's A-133 audit report and associated KPMG 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 the Offices of Inspector General is to assure the quality of single audits, and other audits performed by non-federal auditors. This responsibility is specifically mandated in the Inspector General Act of 1978 (IG Act). The IG Act mandates that all federal Inspectors General "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 non-federal auditors and provide the results, when appropriate, to other interested organizations.

On July 30, 2004, KPMG LLP issued an audit report on AIT for the fiscal year ended September 30, 2003. KPMG LLP issued an unqualified opinion on the financial statements and the *Schedule of Expenditures of Federal Awards*. The auditors found no instances of

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noncompliance in the financial statement audit that are required to be reported under generally accepted auditing standards and Government Auditing Standards. Finally, the auditors noted no matters that were considered to be material weaknesses involving internal controls relating to the financial statements or major programs.

PURPOSE, SCOPE, AND METHODOLOGY

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

OIG reviewed KPMG LLP's OMB Circular A-133 audit report on AIT for the fiscal year ended September 30, 2003, 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 working paper documentation, and the compliance and substantive testing performed.

OIG reviewed the most recent peer review letter, dated October 28, 2002, issued by PricewaterhouseCoopers LLP, which found that KPMG 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 the standards were complied with during the year ended March 31, 2002.

OIG conducted fieldwork in Washington, DC, from February 1 through February 10, 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 audit 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

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- 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 AIT's A-133 audit report and associated KPMG 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.

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