



UNITED STATES GOVERNMENT

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Memorandum

Office of the Inspector General

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

May 11, 2011

FROM: Karl W. Schornagel
Inspector General

SUBJECT: Results of the Open World Leadership Center
FY 2010 Financial Statement Audit

The attached reports present the results of the annual audits of the Open World Leadership Center’s (Open World) financial statements for fiscal years (FY) 2010 and 2009.

We contracted with the independent certified public accounting firm of Kearney & Company (Kearney) for the audits. The contract required that the audits 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.

In its audit of Open World, Kearney 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 in internal control¹ over financial reporting (including safeguarding assets), and
- There were no instances of noncompliance with laws and regulations it tested.

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 Center’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 Kearney'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. Kearney is responsible for the attached auditor's report dated April 5, 2011 and the conclusions expressed in the report.² However, our review disclosed no instances where Kearney did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Attachment

² In accordance with generally accepted auditing standards, Kearney's report is dated as of the last day of their audit fieldwork. Kearney's final report was delivered to the Office of the Inspector General on April 28, 2011.

INDEPENDENT AUDITOR'S REPORT

Executive Director
Open World Leadership Center

We have audited the accompanying consolidated balance sheets of the Open World Leadership Center (the Center) as of September 30, 2010 and 2009, and the related consolidated statements of net cost, statements of changes in net position, and combined statements of budgetary resources for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

SUMMARY

As stated in our opinion on the financial statements, we concluded that the Center's financial statements for the years ended September 30, 2010 and 2009 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP).

Our consideration of internal control over financial reporting (including the safeguarding of assets) disclosed no significant deficiencies or material weaknesses.

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States.

The following sections discuss our opinion on the Center's financial statements, our consideration of the Center's internal control over financial reporting, our tests of the Center's compliance with certain provisions of applicable laws and regulations, and Center management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the Center as of September 30, 2010 and 2009, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2010 and 2009, and its net cost of operations, changes in net position, and budgetary resources, including accompanying notes, for the years then ended, in conformity with GAAP.

The Center's Management's Discussion and Analysis, other Required Supplementary Information, and other accompanying information contain a wide range of information, some of which is not directly related to the financial statements. The information contained in the Management's Discussion and Analysis is not a required part of the Center's financial statements, but is considered supplementary information required by OMB Circular No. A-136, *Financial Reporting Requirements*. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with the Center. On the basis of this limited work, we found no material inconsistencies with the financial statements, GAAP, or OMB Bulletin No. 07-04, as amended.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Center's internal control over financial reporting and compliance by obtaining an understanding of the design effectiveness of the Center's internal control, determining whether these controls had been placed in operation, assessing control risk, and performing tests of the Center's controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal controls. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting and compliance.

We limited our control testing to those controls necessary to achieve the following OMB Bulletin No. 07-04 control objectives that provide reasonable, but not absolute, assurance that:

1. Transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with GAAP, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition
2. Transactions are executed in compliance with laws governing the use of budget authority; Government-wide policies and laws identified in Appendix E of OMB Bulletin No. 07-04, as amended; and other laws and regulations that could have a direct and material effect on financial statements. We did not test all internal controls relevant to the

operating objectives as broadly defined by the Federal Financial Management Improvement Act, such as those controls relevant to ensuring efficient operations.

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 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 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 over financial reporting was for the limited purpose described in the preceding paragraphs, and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not note any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of the Center's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 07-04, as amended. We limited our tests of compliance to these provisions; we did not test compliance with all laws and regulations applicable to the Center. Providing an opinion on compliance with certain provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our testing disclosed no instances of noncompliance as described in the preceding paragraph, and disclosed no instances of noncompliance that would be reportable under standards applicable to financial audits contained in *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended.

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This report is intended solely for the information and use of the Center's Board of Directors, the Center's Audit Committee, the Center's management, and Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia
April 5, 2011