

---

August 25, 2005

---



# Oversight Review

Quality Control Review of McGladrey & Pullen, LLP Office of Management and Budget Circular A-133 Audit Report of the Analytic Services Inc., Fiscal Year Ended September 30, 2002  
(Report No. D-2005-6-007)

---

Department of Defense  
Office of the Inspector General

---

*Quality*

*Integrity*

*Accountability*

### **Additional Copies**

To obtain additional copies of this report, visit the Web site of the Department of Defense Inspector General at [www.dodig.osd.mil/audit/reports](http://www.dodig.osd.mil/audit/reports) or contact the Office of Audit Policy and Oversight at (703) 604-8760 or fax (703) 604-9808.

### **Suggestions for Future Reviews**

To suggest ideas for or to request future reviews, contact the Office of Audit Policy and Oversight at (703) 604-8760 (DSN 664-8760) or fax (703) 604-9808. Ideas and requests can also be mailed to:

OAIG-APO  
Department of Defense Inspector General  
400 Army Navy Drive (Room 1016)  
Arlington, VA 22202-4704

### **Defense Hotline**

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to [Hotline@dodig.osd.mil](mailto:Hotline@dodig.osd.mil); or by writing to the Defense Hotline, The Pentagon, Washington, DC 20301-1900. The identity of each writer and caller is fully protected.

DEPARTMENT OF DEFENSE

**hotline**

**To report fraud, waste, mismanagement, and abuse of authority.**

Send written complaints to: Defense Hotline, The Pentagon, Washington, DC 20301-1900  
Phone: 800.424.9098 e-mail: [hotline@dodig.osd.mil](mailto:hotline@dodig.osd.mil) [www.dodig.mil/hotline](http://www.dodig.mil/hotline)

### **Acronyms**

ANSER	Analytic Services Inc.
CAS	Cost Accounting Standards
DCAA	Defense Contract Audit Agency
FAR	Federal Acquisition Regulation
GAS	Government Auditing Standards
DOD OIG	Department of Defense Office of Inspector General
OMB	Office of Management and Budget
SEFA	Schedule of Expenditures of Federal Awards



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

AUG 25 2005

Board of Trustees  
Analytic Services Inc.

Partner-in-Charge  
Bethesda Office  
McGladrey & Pullen, LLP

SUBJECT: Report on Quality Control Review of McGladrey & Pullen LLP Office of Management and Budget Circular A-133 Audit Report of the Analytic Services Inc., Fiscal Year Ended September 30, 2002 (Report No. D-2005-6-007)

We are providing this report for your information and use. The audit firm of McGladrey & Pullen, LLP, performed the FY 2002 single audit for Analytic Services Inc. (ANSER), located in Arlington, Virginia. Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," (OMB Circular A-133) requires the audit. ANSER expended \$52.5 million in Federal awards under the Research and Development cluster during the fiscal year that ended September 30, 2002 (FY 2002). Of the \$52.5 million, \$48.5 million was expended for DoD research and development programs.

**Background.** ANSER is a not-for-profit public service research corporation. The company provides analytic and technical support to Federal agencies in the areas of homeland security, aerospace systems development, acquisition, operations, requirements definition, technology evaluation, testing and planning, and foreign technology analyses. ANSER maintains its main office in Arlington, Virginia; and two other offices in Colorado Springs, Colorado; and Hampton, Virginia. McGladrey & Pullen, LLP, has provided OMB Circular A-133 audit services to ANSER since FY 2001. The McGladrey & Pullen offices in the mid-Atlantic region have performed 216 OMB Circular A-133 audits since 1997.

**Quality Control Review Objective.** As the cognizant Federal agency for ANSER, the Department of Defense Office of Inspector General (DoD OIG) performed a quality control review of the single audit report and supporting work papers for the FY 2002 ANSER single audit. The objectives of the review were to determine whether the audit was conducted according to Government auditing standards (GAS) and the auditing and reporting requirements of OMB Circular A-133. The scope and methodology for the review is at Appendix A.

**Review Results.** The McGladrey & Pullen auditors did not meet the requirements of OMB Circular A-133 and GAS issued by the Comptroller General. The FY 2002 single audit was not adequately coordinated, executed, and documented. In addition, the McGladrey & Pullen auditors did not properly complete the Data Collection Form (findings A through D). As a result, Federal agencies and pass-through entities cannot

---

rely on the audit report for assurance that ANSER is managing Federal awards in compliance with laws, regulations, and award provisions.

ANSER generally complied with OMB Circular A-133 reporting requirements, except that the Schedule of Expenditures of Federal Awards (SEFA) included, but did not separately identify, fixed-price contracts; did not provide the complete Catalog of Federal Domestic Assistance number or other identifying number; and did not provide the identification number assigned by the pass-through entities (finding D).

**Management Comments and DoD OIG Response.** McGladrey and Pullen management generally concurred with the audit findings and the intent of all the recommendations and have agreed to take corrective actions. Comments from the Senior Vice President and Chief Financial Officer, Analytic Services Inc., were responsive. Management comments and the evaluation responses are discussed in the recommendation section and are included in its entirety at the end of this report.

## Findings

**Finding A. Audit Coordination.** The McGladrey & Pullen auditors did not coordinate the single audit of ANSER for FY 2002. Specifically, the auditors did not review and consider the work of the Defense Contract Audit Agency (DCAA). GAS states that the auditor should determine whether other auditors have previously done or are doing audits of the program or entity to plan and perform the audit. If other auditors have identified areas that warrant further review, that audit work may influence an auditor's selection of objectives and methodology, as well as limit the extent of their own testing.

From October 2001 through September 2002, DCAA issued 12 final reports to ANSER on compliance with cost accounting standards (CAS), recording labor charges and the timekeeping system, provisional indirect rates, and a contract close-out report. DCAA also issued a draft report on the ANSER billing system and identified noncompliances with contract clauses that required withholdings on cost type and time-and-material contracts. McGladrey & Pullen should have coordinated with DCAA and identified these deficiencies in assessing the risk for noncompliance with laws, regulations, and provisions of contracts and grant agreements in determining the nature and extent of its compliance testing. In addition, the auditors would have discovered that ANSER is subject to full CAS coverage as discussed in finding C of this report.

**Finding B. Performance of the Review of Internal Control and Compliance Over Financial Reporting.** The McGladrey & Pullen auditors did not adequately plan and perform the review of internal control and compliance over financial reporting because the auditors did not:

- gain an understanding of internal control over compliance with laws, regulations, and contract provisions that could have a material effect on the determination of financial statement amounts;
- design and perform adequate procedures to test compliance and to follow up on disclosed exceptions; and
- determine the cause of unusual balances in the review of the accounts receivable balance.

---

As a result, we were unable to determine whether the conclusions in the auditors' report on internal control and compliance over financial reporting based on the audit of financial statements can be relied upon by Federal agencies.

**Internal Control Over Financial Reporting.** The McGladrey & Pullen auditors did not perform adequate procedures to review internal control over financial reporting. They did not identify contract provisions that could have a material effect on financial statement amounts; gain an understanding of internal control over financial reporting related to compliance with laws, regulations, and contract provisions; and identify and test key internal controls. In addition, they did not coordinate with and consider the reviews performed by DCAA.

Auditing standards require that the auditor design the audit of the financial statements to provide reasonable assurance that they are free of material misstatements resulting from violations of laws, regulations, and contract provisions that have a material effect on the determination of financial statement amounts. In addition, the standards also require the auditor to consider the work of other auditors when planning the audit.

The majority of Federal awards to ANSER are cost-reimbursable and time-and-material contracts, which contain contract clauses that typically could have material financial statement implications because they address reimbursement of costs. Some of the Federal Acquisition Regulation (FAR) contract clauses that can impact financial statement amounts include FAR 52.216-7, "Allowable Cost and Payment;" FAR 52.230-2, "Cost Accounting Standards;" FAR 52.232-7, "Payments under Time-and-Material and Labor-Hour Contracts;" FAR 52.232-20, "Limitation of Cost;" FAR 52.232-22, "Limitation of Funds;" and FAR 52.232-25, "Prompt Payment." We found no documentation in the work papers that the auditors considered these, or any other contract clauses that could materially affect financial statement amounts, when planning or performing the review of internal control over financial reporting.

During our review, the current audit manager provided an audit program containing an audit step that required the auditors to consider whether the evaluation of the internal control structure and controls identified specific information that provided evidence about possible noncompliance or illegal acts. The audit program referenced a supporting work paper as evidence of work performed for this audit step. However, the current audit manager stated that the referenced work paper could not be found. Furthermore, we did not find any other documentation to demonstrate that the auditors gained an understanding of relevant contract clause requirements or the internal controls designed to ensure compliance with those requirements. The audit program also required the auditors to review available external reports of compliance audits. The auditors annotated that there were no external audits performed on ANSER in 2002. To the contrary, we found that DCAA auditors performed a number of reviews on compliance with CAS and a billing system review as discussed in finding A. These reviews were related to compliance with contract provision requirements and should have been considered by the McGladrey & Pullen auditors in planning the review of internal control over financial reporting.

**Compliance With Contract Provisions.** The McGladrey & Pullen auditors did not perform adequate procedures to determine compliance with contract clauses that could have a material effect on the financial statement. The auditors did not identify whether duplicate billings, overpayments, and exceptions disclosed in the accounts receivable testing were potential noncompliances. As a result, they did not evaluate these

---

audit exceptions to determine whether they should have been reported as audit findings. These conditions existed because the audit programs were primarily designed to test the overall reasonableness of the accounts receivable assertion and not to address possible noncompliances with contract provisions.

Based on the testing of accounts receivables, the auditors identified duplicate payments, overbillings, and contracts that exceeded funding and or contract limitations. The auditors documented the following audit exceptions in the work papers.

- Duplicate payments and overpayments of \$59,024 related to three contracts in the billed receivables account;
- Estimate of \$531,964 for an overpayment in the unbilled “old and closed” receivable account;
- Duplicate contract payment of \$70,878 in an accrued liability account;
- A contract that did not have funding for subcontractor cost incurred;
- A contract where travel costs had exceeded the funding limit;
- A contract where costs were incurred prior to the receipt of funding;
- A contract where incurred labor had exceeded the contract hour limitations; and
- A time-and-material contract with costs incurred that exceeded the funding limit.

However, the work papers do not indicate that the auditors performed procedures to determine whether ANSER had notified the Government about the duplicate payments and overpayments as required by the Prompt Payment clause. The work papers also do not indicate that the auditors performed procedures to determine whether ANSER had made the required advance notification to the Government on contract limitations as required by the Limitation of Cost and Limitation of Funds clauses. There is also no documented evidence that the auditors evaluated these audit exceptions to determine whether they represented reportable conditions, noncompliances, or questioned costs to be reported as findings under GAS and OMB Circular A-133 reporting requirements.

**Review of Accounts Receivable Balance.** The McGladrey & Pullen auditors did not exercise professional judgment in the audit of accounts receivable. They did not determine the cause of large and unusual balances in the accounts receivable account. The accounts receivable balance of \$26,635,742 represented 68 percent of the assets on the financial statements. The supporting information provided by ANSER disclosed that this balance included material amounts of unbilled receivables and a significant number of credit balances. Based on our review of the work papers, we determined the following.

- Approximately 25 percent or \$6.5 million of the accounts receivable balance was for unbilled receivables. Eighteen percent or \$1.2 million of the \$6.5 million was credit balances.

- 
- A listing of unbilled "old and closed" receivables related to approximately 200 contracts over 2 years old included contracts with credit balances of approximately \$1.8 million.
  - The auditor identified additional credit balances of \$68,514 in the billed receivables account.

The McGladrey & Pullen work papers contained no documentation as to why ANSER was not able to bill the Government for the significant costs in the unbilled receivables account or why significant credit balances appeared in an asset account. There also was no indication that the auditors identified these conditions as warranting further evaluation or considered the possibility that the cause of these conditions related to internal control deficiencies and violations of contract clauses. Furthermore, there is no documented evidence that the auditors evaluated whether, collectively, these unusual circumstances represented a risk of a material misstatement of the accounts receivable balance.

**Finding C. Performance and Documentation of Federal Program Audit.** The McGladrey & Pullen auditors did not adequately perform and document the single audit of the ANSER major Federal program according to OMB Circular A-133 requirements and GAS. The auditors' work did not support their opinion on compliance with major program requirements and on the fair representation of the SEFA and the Summary Schedule of Prior Audit Findings. The auditors did not adequately:

- plan for audit coverage for two of the applicable compliance requirements,
- perform tests of internal control over compliance and compliance with major program requirements,
- perform procedures to determine the completeness and appropriateness of the SEFA, and
- perform procedures to assess the reasonableness of the Summary Schedule of Prior Audit Findings.

**Audit Coverage.** The auditors did not plan for adequate audit coverage. The sampling methodology was inadequate to achieve the audit objectives for the review of internal controls and compliance for the Period of Availability and Equipment and Real Property compliance requirements.

The American Institute of Certified Public Accountants Statements on Auditing Standards AU §350.17 states that when planning a particular sample, the auditor should consider the specific audit objective to be achieved and determine the audit procedure, or combination of procedures, applied to achieve that objective. The auditor should determine that the population from which the sample is drawn is appropriate for the specific audit objective.

The McGladrey & Pullen auditors did not properly design the sample selection to enable them to test internal controls and compliance with the Period of Availability compliance requirement because the sampling approach did not identify the proper universe of contracts completed in FY 2002. The audit objective for Period of Availability is to determine whether Federal funds were obligated within the period of availability and obligations were liquidated within the required time period.

---

The auditors used the criterion of \$1 million threshold to select contracts to test for the Period of Availability compliance requirement. None of the contracts selected by McGladrey & Pullen using the \$1 million threshold were completed during FY 2002, so the auditors were not able to test the attributes of this compliance requirement. The auditors should have selected contracts where work was to be completed by fiscal year end regardless of contract value. Based on our review, we found evidence in a separate work paper on profit margin testing of 28 contracts that the auditors listed as being completed at year-end. Therefore, there were at least 28 contracts that should have been included in their sampling universe.

The auditors also did not adequately plan the audit coverage for the Equipment and Real Property compliance requirement. The work papers did not document the description of the universe from which the sample was drawn, the basis for the sample size, and the method of selection. The Compliance Supplement defines equipment as a tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than 1 year and an acquisition cost of \$5,000 or more per unit, although lower limits may be established by a non-Federal entity. Based on our review of the work papers, there was no indication that ANSER had established lower limits. The auditors' compliance testing consisted of two software items with an acquisition cost of \$741 each. We believe that the McGladrey & Pullen auditors should have used the acquisition criterion of \$5,000 to select items to test compliance with the Equipment and Real Property compliance requirement.

**Review of Internal Controls and Compliance with Major Program Requirements.** The McGladrey & Pullen auditors identified 9 of the 14 compliance requirements to be applicable to ANSER for the FY 2002 single audit (See Appendix B for the applicable compliance requirements). We determined that the testing for the Eligibility and the Procurement and Suspension and Debarment compliance requirements to be adequate. We could not comment on the adequacy of the audit procedures for Period of Availability related to internal controls and compliance because the auditors could not perform any testing as a result of inadequate sampling. We also could not determine the basis for the auditors' conclusion for Special Tests and Provisions because the auditors did not document which contracts were reviewed, or the audit procedures performed to support their conclusion that ANSER did not have any contracts with special contract terms and provisions. While the auditors obtained an adequate understanding of internal controls, there was no plan to test internal controls over compliance, and the testing of compliance with the requirements was inadequate for five of the nine compliance requirements.

OMB Circular A-133 requires the auditor to perform procedures to obtain an understanding of internal control over compliance for Federal programs sufficient to plan the audit to support a low assessed level of control risk and perform the test of controls as planned. Based on the test of controls, the auditor can determine the amount of substantive testing needed to provide the auditor with sufficient evidence to support an opinion on compliance. The auditor should be aware that small sample sizes for tests of details with a low dollar value from a large population generally do not by themselves provide sufficient evidence.

**Activities Allowed or Unallowed and Allowable Costs/Cost Principles.** The McGladrey & Pullen auditors did not identify and test key controls to meet the objectives of the Activities Allowed or Unallowed and the Allowable Costs/Cost Principles compliance requirements. The auditors did not plan and perform the test of



---

controls and the compliance testing did not provide sufficient evidence to support their opinion on compliance.

The objectives of these two compliance requirements include obtaining assurance that direct and indirect costs charged to grants and contracts comply with applicable cost principles for allowability and allocability. The procedures performed by the McGladrey & Pullen auditors were primarily to verify whether the costs were supported by appropriate documentation. Although the auditors reviewed the costs for allowability, the auditors did not document the specific criteria used. For allocability, the auditors documented whether the transaction was a direct or indirect cost, but there was no documented evidence of any procedures performed to ensure that the costs were charged in a consistent manner according to the ANSER disclosed cost accounting practices. Based on their testing, the auditors noted no exceptions to the allowability and allocability of costs. However, we found evidence in a separate work paper for the audit of the financial statements on profit margin testing that the auditors had knowledge of seven different contracts that ANSER had used to keep track of board initiative expenses. As documented in the work paper, the auditors were aware that these expenses were classified by ANSER as unallowable costs. The McGladrey & Pullen auditors did not consider this information in their compliance testing for the Activities Allowed or Unallowed and the Allowable Costs/Cost Principles compliance requirements and concluded that the costs were allowable even though several of the tested transactions came from these contracts.

During our review, the partner-in-charge stated that the auditors tested the transactions to the FAR cost principles and not the cost principles under OMB Circular A-122, "Cost Principles for Non-Profit Organizations," (OMB Circular A-122). However, the work papers contained no documentation of the criteria used. FAR Subpart 31.7 states that non-profit organizations are subject to the cost principles of OMB Circular A-122. Although some non-profit organizations are exempt from OMB Circular A-122 and because of their size and nature of operations operate under the FAR, ANSER is not one of them. We also found that the auditors neglected to perform audit procedures to test ANSER compliance with CAS. The partner-in-charge provided verbal justification that compliance with CAS was not performed because ANSER did not receive \$50 million or more in Federal awards in FY 2002 and is therefore exempt from CAS. According to the FAR, the \$50 million threshold only establishes whether an organization is subject to full or modified CAS coverage and not as a determining factor for the applicability of CAS. Furthermore, we were advised by both ANSER and DCAA that ANSER is fully CAS-covered.

**Equipment and Real Property.** The McGladrey & Pullen auditors did not identify and test key internal controls and the compliance testing did not provide sufficient evidence to support their opinion on compliance with the Equipment and Real Property compliance requirement. The documentation for the test of controls was limited to obtaining a current list of inventory and identifying purchases and disposals of equipment. Aside from obtaining a list of inventory, the auditors did not perform any audit procedures to test internal controls over inventory management or the purchase and disposal of equipment. Since the auditors did not plan and test key internal controls, there was no basis for the number of transactions selected to test compliance with the requirement.

As part of their compliance testing, the auditors documented that they reviewed the inventory count sheets, but there was no evidence of what audit objective(s) the auditors

---

were trying to achieve. The auditors also judgmentally selected two items from the property list to test compliance by tracing the items to their actual location or their acquisition record. The items selected had an acquisition cost of \$741, below that of the \$5,000 capitalization threshold as defined in the Compliance Supplement. While ANSER can establish limits lower than \$5,000, there was no indication that the auditors performed procedures to determine whether ANSER had established lower limits. There also was no documented evidence as to how the auditors determined that testing two transactions was sufficient to obtain reasonable assurance that ANSER complied with the Equipment and Real Property compliance requirement.

**Level of Effort Requirements.** As documented in their compliance audit program, the McGladrey & Pullen auditors determined that ANSER had level of effort requirements on certain cost-plus-fixed-fee contracts. However, there was no documented evidence of which contracts were reviewed or even a description of the level of effort requirements that the auditors were testing for. There also was no documented evidence of any internal control testing and the compliance testing was limited to an analysis of material fees where the auditors analyzed calendar-to-date revenue against the funding amount of the contract. The auditors did not provide an explanation in the work papers how analyzing material fees would satisfy the test objectives for determining compliance with level of effort requirements.

GAS requires that work papers contain sufficient information to enable an experienced auditor with no previous connection to the audit to ascertain the evidence that supports an auditor's significant conclusions and judgments. Work papers should contain objectives, scope, and methodology, as well as any sampling criteria used. The work papers should also contain documentation of the work performed, including descriptions of transactions and records examined, that would enable an experienced auditor to examine the same transactions and records.

Based on our inquiries, the current audit manager provided us with a work paper that was not part of the original audit files as evidence of the contracts reviewed. This work paper was not referenced in the compliance audit program or any other work papers and we could not ascertain its source. We were also advised by the current audit manager that since this un-indexed work paper made no reference to level of effort, then no level of effort requirements existed on the contracts tested. Due to the lack of internal control testing, inadequate compliance testing, and conflicting verbal explanations, we conclude that there is insufficient evidence to support the auditors' opinion that ANSER complied with level of effort requirements.

**Reporting.** The McGladrey & Pullen auditors did not perform adequate audit procedures to support their conclusion that ANSER complied with the reporting requirement. The auditors did not identify and test key internal controls for the reporting requirement. For the compliance testing, the auditors documented that they reviewed the contracts to determine which reports were required. The auditors also performed procedures to ensure the accuracy of one financial report by tracing the information back to the general ledger accounts. However, the work paper did not describe which general ledger accounts the auditors reviewed to support their conclusion and we did not see any audit procedures performed to ensure the accuracy of the monthly status reports (non-financial reports).

During our review, the current audit manager provided the same un-indexed work paper that was discussed under the level of effort compliance requirement as additional support

---

for the testing of compliance with the reporting requirement. The auditors documented the contracts reviewed and concluded that the financial reports agreed with the general ledger amounts and that the reports were mailed on time. However, the work paper did not identify which types of reports were required and reviewed and there was no evidence of audit procedures performed to support the conclusion that the reports were submitted on time.

**Schedule of Expenditures of Federal Awards.** The McGladrey & Pullen auditors did not perform adequate procedures to assess the completeness and appropriateness of the SEFA. Fixed-price contracts were included on the SEFA, representing approximately 40 percent of the total Federal awards. As a result, it created inefficiencies in the audit because the sample selection for the compliance testing included fixed-priced contracts not subject to audit under OMB Circular A-133.

**Summary Schedule of Prior Audit Findings.** The McGladrey & Pullen auditors did not perform adequate audit procedures to assess the reasonableness of the Summary Schedule of Prior Audit Findings. Although the auditors documented in their work papers that the prior year audit findings had been corrected, there was no evidence of audit procedures performed to support their conclusion. We were advised by the current audit manager that the auditors performed audit procedures during the planning phase of the FY 2002 single audit to assess the reasonableness of the Summary Schedule of Prior Audit Findings, but that the procedures were not documented. However, the current audit manager could not verbally describe the audit procedures performed to support the claim.

Based on our review of the financial statement audit, we determined that, at a minimum, the prior year finding related to untimely billing is a recurring condition in FY 2002 since approximately 25 percent of the accounts receivable balance was for unbilled receivables and should be reported as a current year finding in the Schedule of Findings and Questioned Costs.

**Finding D. OMB Circular A-133 Reporting Package.** ANSER did not prepare the SEFA according to OMB Circular A-133 requirements. The McGladrey & Pullen auditors did not prepare the Data Collection Form according to OMB Circular A-133 requirements and the Data Collection Form instructions.

**Schedule of Expenditures of Federal Awards.** ANSER did not clearly present the SEFA according to OMB Circular A-133 §\_\_\_\_.310(b) requirements. The SEFA included, but did not separately identify, fixed-price contracts from the total Federal awards. Fixed-price contracts are not required to be included in the SEFA and are not subject to audit under OMB Circular A-133. The SEFA also did not provide the complete Catalog of Federal Domestic Assistance number or other identifying number when only one award was received from a Federal agency, and it did not include the identifying number assigned by the pass-through entities for awards ANSER received as a subrecipient. As a result, Federal awarding agencies and pass-through entities may have difficulty using the information in the SEFA to monitor their awards.

**Data Collection Form.** The McGladrey & Pullen auditors did not properly complete Part III, Item 10, of the Data Collection Form. OMB Circular §\_\_\_\_.320b)(2)(x) and the Data Collection Form instructions Part III, Item 10 require the information in the SEFA and the Data Collection Form to be presented at the same level of detail. The Data Collection Form did not separately list the name of the pass-through entity and the identification number assigned by the pass-through entity.

---

**Summary.** The McGladrey & Pullen LLP audit work does not meet the requirements of OMB Circular A-133, the related Compliance Supplement, and GAS. As a result, Federal agencies and pass-through entities cannot rely on the audit report for assurance that ANSER is managing Federal awards in compliance with laws, regulations, and award provisions.

McGladrey & Pullen lacked an understanding of the requirements for performing the single audit and we conclude that additional training related to GAS and OMB Circular A-133 is necessary for personnel engaged in these types of audits. Based on the deficiencies discussed in this report, we conclude that the audit was not adequately supervised and that proper supervision is needed to ensure that the audit is conducted in accordance with GAS and OMB Circular A-133 requirements.

## Recommendations

1. We recommend that the Chief Financial Officer, Analytic Services Inc.:
  - a. Coordinate all future Office of Management and Budget Circular A-133 audits between the independent public accounting firm and the Defense Contract Audit Agency to achieve a comprehensive and cost-effective audit.

**ANSER Comments.** ANSER management concurred with the recommendation and stated that appropriate coordination between auditors will be performed for future audits.

- b. Direct McGladrey & Pullen, LLP, to redo the single audit of Analytic Services Inc., for FY 2002 to address the specific deficiencies related to the review of internal control and compliance over financial reporting and the major Federal program identified in this report at no additional cost to the Government.

**ANSER Comments.** ANSER management concurred with the recommendation and stated that the Chair of the Audit Committee will direct McGladrey and Pullen, LLP, to address the specific deficiencies in this report at the earliest possible date.

- c. Notify the Department of Defense Office of Inspector General when McGladrey & Pullen, LLP, provides the revised reporting package to ANSER so that we can perform a follow-up quality control review before submission of the revised FY 2002 single audit reporting package to the Federal Audit Clearinghouse.

**ANSER Comments.** Upon receipt of the revised reporting package from McGladrey and Pullen, LLP, ANSER management will promptly notify the Department of Defense Office of Inspector General for a follow-up quality control review prior to submission of the single audit reporting package to the Federal Audit Clearinghouse

- d. Identify as unallowable any costs associated with the audit services provided by McGladrey & Pullen, LLP, for the FY 2002 single audit

---

related to the review of internal control and compliance over financial reporting and the major Federal program until the audit is performed in accordance with OMB Circular A-133 and Government auditing standards.

**ANSER Comments.** ANSER management will review all costs associated with the FY 2002 single audit services to make certain that the government does not incur any additional cost in conjunction with the correction of these deficiencies. Any additional costs incurred by ANSER for completion of an acceptable audit report will be recorded as an unallowable expense.

- e. Revise the Schedule of Expenditures of Federal Awards according to the OMB Circular A-133 requirements and provide the corrected Schedule to McGladrey & Pullen, LLP, for the additional audit procedures necessary for the FY 2002 OMB Circular A-133 audit.

**ANSER Comments.** ANSER management revised the FY 2002 Schedule of Expenditures of Federal Awards in accordance with OMB A-133 and forwarded the information to McGladrey and Pullen, LLP, on June 8, 2005. In addition, similar revisions were made to the FY 2003 Schedule of Expenditures of Federal Awards and provided to McGladrey and Pullen, LLP. Finally, the Schedule of Expenditures of Federal Awards for FY 2004 was prepared and submitted in accordance with OMB A-133.

**2. We recommend that the Partner-in-Charge, McGladrey & Pullen, LLP:**

- a. Coordinate all future OMB Circular A-133 audits with the Defense Contract Audit Agency.

**McGladrey & Pullen Comments.** McGladrey and Pullen management concurred with the finding and recommendation stating that they will contact DCAA prior to the start of planning their engagement to make sure that the results of the DCAA reviews are incorporated into the scope of their OMB Circular A-133 audit engagement.

- b. Redo the single audit of Analytic Services Inc., for FY 2002 related to the review of internal control and compliance over financial reporting and the major Federal program and revise the reporting package to reflect, at a minimum, the date the work is completed. The audit procedures should address the specific deficiencies identified in this report and be performed in accordance with OMB Circular A-133 and Government auditing standards at no additional costs. The revised reporting package should be provided to ANSER.

**McGladrey & Pullen Comments.** McGladrey and Pullen management believed that their audit complied with the minimum level of documentation required by professional standards and that their work papers addressed the two compliance requirements in question. Furthermore, they stated that professional standards do not require them to prepare separate audit program sheets to evidence their evaluation of the Schedule of Expenditures of Federal Awards and the Summary Schedule of Prior Audit Findings. However, they acknowledged that their audit approach did not address all of the requirements that the DoD OIG office believe to be material and will modify their audit approach to more specifically address and document the review of internal control and compliance over the requirements cited in this report.

---

McGladrey and Pullen management concurred with the recommendation and agreed to update their audit work paper files and implement all of the actions proposed in this report. The reporting packages will be reissued, including subsequent dating, in accordance with applicable professional standards.

**DoD OIG Response.** OMB Circular A-133 §\_\_\_500 requires that single audits be conducted in accordance with Government Auditing Standards. The documentation requirements for the audit are established in the Government Auditing Standards which requires that work papers contain sufficient information to enable an experienced auditor with no previous connection to the audit to ascertain the evidence that supports an auditor's significant conclusions and judgments. We disagree that McGladrey and Pullen, LLP, work papers met the documentation requirements established in the Government Auditing Standards.

The work papers lacked adequate documentation to show proper planning and performing to meet the Single Audit Act requirements. The deficiencies we identified are not DoD OIG requirements but Single Audit requirements. Updating the work papers after the fact is not an acceptable audit practice without additional audit work. McGladrey and Pullen, LLP, needs to redo the audit to comply with the Single Audit requirements. We will review the McGladrey and Pullen, LLP, work papers for the additional audit procedures performed to determine whether the single audit meets the requirements of Government Auditing Standards and the Office of Management and Budget Circular A-133.

- c. Revise the McGladrey & Pullen, LLP, audit programs to include appropriate audit procedures to perform an internal control review and compliance testing for contract provisions in support of the Report on Compliance and Internal Control Over Financial Reporting for future audits.

**McGladrey & Pullen Comments.** McGladrey and Pullen management stated that the firm already provides guidance and audit tools to facilitate this process which will be fully implemented and used. The tools will be appropriately tailored for the specifics of the ANSER audit engagement.

**DoD OIG Response.** We disagree with McGladrey and Pullen, LLP, that their audit programs include the appropriate audit procedures to perform an internal control review and compliance testing for contract provisions in support of the Report on Compliance and Internal Control Over Financial Reporting. The recommendation must be implemented to ensure appropriate audit procedures are included.

- d. Obtain formal training for all personnel working on single audits to ensure future audits comply with Government auditing standards and the audit requirements of OMB Circular A-133.

**McGladrey & Pullen Comments.** McGladrey and Pullen management concurred with the recommendation and has made arrangements for a special training session to be held in the fall of 2005. The training will specifically focus on the issues addressed in this report and other topics specific to the profession's experience with the National Single Audit.

- 
- e. Ensure that adequate supervision is provided to personnel working on OMB Circular A-133 audits.

**McGladrey & Pullen Comments.** McGladrey and Pullen management stated that it is the firm's policy and procedures that all audit engagements are adequately staffed to provide for a sufficient level of supervision. The engagement team collectively possesses both the expertise and experience necessary to perform the engagement in accordance with the requirements of GAAS, GAS, the Single Audit Act, and OMB Circular A-133.

**DoD OIG Response.** We disagree with McGladrey and Pullen, LLP, that the FY 2002 single audit was adequately supervised as evidenced by the deficiencies cited in this report. Closer and better supervision is required to ensure the audit meets the Single Audit requirements.

- f. Prepare the appropriate sections of the Data Collection Form in accordance with OMB Circular A-133 requirements and the instructions for the Data Collection Form.

**McGladrey & Pullen Comments.** McGladrey and Pullen management concurred with the finding and recommendation and will make any necessary corrections to the Data Collection Form(s) in connection with the implementation of Recommendation b.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Ms. Janet Stern at (703) 604-8750 (DSN 664-8750) or Mr. Wayne Berry at (703) 604-8789 (DSN 664-8789). See Appendix C for the report distribution.



Patricia A. Brannin  
Assistant Inspector General  
Audit Policy and Oversight

---

# **Appendix A. Quality Control Review Process**

## **Scope and Methodology**

We conducted a quality control review of the McGladrey & Pullen, LLP, audit of Analytic Services Inc., for FY 2002 and the resulting reporting package that was submitted to the Federal Audit Clearinghouse dated March 10, 2003. We performed our review using the 1999 edition of the “Uniform Quality Control Guide for the A-133 Audits” (the Guide) and the project instruments developed by the Department of Education Inspector General office. The Guide applies to any single audit that is subject to the requirements of OMB Circular A-133 and is the approved President’s Council on Integrity and Efficiency checklist used for performing the quality control reviews. Our review was conducted from January through May 2005 and covered areas related primarily to the audit of the ANSER research and development cluster. As the cognizant agency for ANSER, we focused our review on the following qualitative aspects of the single audit:

- qualification of auditors,
- independence,
- due professional care,
- planning and supervision,
- internal control and compliance testing,
- Schedule of Expenditures of Federal Awards,
- Schedule of Findings and Questioned Costs,
- Summary Schedule of Prior Audit Findings, and
- Data Collection Form.

In conducting our review, we reviewed the work papers prepared by McGladrey & Pullen, LLP, as well as audit reports issued by DCAA. We discussed the audit with the McGladrey & Pullen, LLP, partner-in-charge and current audit manager and ANSER personnel.

## **Prior Quality Control Reviews**

The DoD OIG has not done quality control reviews on McGladrey & Pullen, LLP.

## **Single Audit Requirements**

The intention of the Single Audit Act, Public Law 98-502, as amended, and OMB Circular A-133 is to improve the financial management of State and local Governments and non-profit organizations. The Single Audit Act and OMB Circular A-133 establish one uniform set of auditing and reporting requirements for all Federal award recipients required to obtain a single audit. OMB Circular A-133 establishes policies that guide



---

implementation of the Single Audit Act and provides an administrative foundation for uniform audit requirements of non-Federal entities administering Federal awards. OMB Circular A-133 requires that Federal departments and agencies rely on and use the single audit work to the maximum extent practicable. Entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more of Federal awards in a fiscal year are subject to the Single Audit Act and the audit requirements in OMB Circular A-133 and, therefore, must have an annual single or program-specific audit performed under GAS. To meet the intent of the law and OMB Circular A-133 requirements, the auditee (non-Federal entity) submits to the Federal Audit Clearinghouse a complete reporting package and a Data Collection Form on each single audit. The submission includes the following:

- a Data Collection Form, certified by the auditee that the audit was completed in accordance with OMB Circular A-133;
- financial statements and related opinion;
- Schedule of Expenditures of Federal Awards and related opinion;
- report on compliance and internal control over financial reporting;
- report on internal control over compliance for major programs;
- report on compliance with requirements for major programs and related opinion;
- Schedule of Findings and Questioned Costs;
- Summary Schedule of Prior Audit Findings; and
- a corrective action plan, when appropriate.

The OMB Compliance Supplement (the Supplement) assists auditors identify compliance requirements the Federal Government expects to be considered as part of the single audit. For each compliance requirement, the Supplement describes the related audit objectives that the auditor should consider in each audit conducted under OMB Circular A-133, as well as suggested audit procedures. The Supplement also describes the objectives of internal control and characteristics that, when present and operating effectively, may ensure compliance with program requirements. The following 14 compliance requirements identified in the Supplement are applicable to the research and development cluster.

- A. Activities Allowed or Unallowed;
- B. Allowable Costs/Cost Principles;
- C. Cash Management;
- D. Davis-Bacon Act;
- E. Eligibility;
- F. Equipment and Real Property Management;
- G. Matching, Level of Effort, Earmarking;
- H. Period of Availability of Federal Funds;
- I. Procurement and Suspension and Debarment;

- 
- J. Program Income;
  - K. Real Property Acquisition and Relocations Assistance;
  - L. Reporting;
  - M. Subrecipient Monitoring; and
  - N. Special Tests and Provisions.

The Statement of Position 98-3, “Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards,” published by the American Institute of Certified Public Accountants, provides guidance on auditor responsibilities for conducting audits according to the Single Audit Act and OMB Circular A-133 (the American Institute of Certified Public Accountants converted the Statement of Position into an audit guide in May 2003). In general, the Statement of Position 98-3 provides auditors with an understanding of the unique planning, performance, and reporting considerations for single audits performed under GAS. In addition, the Statement of Position 98-3 uses summary tables and detailed discussions to provide the auditor with an understanding of the additional general, fieldwork, and reporting requirements under GAS, including the additional standards relating to quality control systems, continuing professional education, work papers, audit follow-up and reporting.

The Statement of Position 98-3 emphasizes that when planning an audit to meet the requirements of OMB Circular A-133, several factors should be considered in addition to those ordinarily associated with an audit of financial statements in accordance with Generally Accepted Auditing Standards and GAS. The factors include, but are not limited to:

- determining that the Schedule of Expenditures of Federal Awards is presented fairly in relation to the financial statements;
- determining major programs for audit using a risk-based approach;
- determining compliance requirements;
- gaining an understanding of internal control over financial reporting and the Federal programs;
- testing internal control over major programs;
- determining compliance with laws, regulations, and the provisions of contract or grant agreements that have a direct and material effect on financial reporting and on each major program; and
- satisfying the additional requirements of the Single Audit Act and OMB Circular A-133 regarding work papers, audit follow-up, and reporting.

---

## Appendix B. Applicable Compliance Requirements

The McGladrey & Pullen, LLP, auditors determined the following compliance requirements to be applicable to the single audit of Analytic Services Inc., for the fiscal year that ended September 30, 2002.

Compliance Requirement	Applicable	Not Applicable
Activities Allowed or Unallowed	X	
Allowable Costs/Cost Principles	X	
Cash Management		X
Davis-Bacon Act		X
Eligibility	X	
Equipment and Real Property Management	X	
Matching, Level of Effort, Earmarking*	X	
Period of Availability of Federal Funds	X	
Procurement and Suspension and Debarment	X	
Program Income		X
Real Property Acquisition and Relocation Assistance		X
Reporting	X	
Subrecipient Monitoring		X
Special Tests and Provisions	X	

---

\*The McGladrey & Pullen, LLP, auditors determined that only Level of Effort applies and not Matching and Earmarking.

---

## **Appendix C. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
Director, Defense Procurement

### **Other Defense Organizations**

Director, Defense Contract Audit Agency

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Air Force Audit Agency

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)  
Auditor General, Department of the Army

### **Department of the Navy**

Chief, Office of Naval Research  
Audit Liaison, Assistant Secretary of the Navy  
Financial Management and Comptroller  
Naval Inspector General

### **Other Federal Agencies**

Office of the Inspector General, Department of Agriculture  
Office of the Inspector General, Department of Justice  
Office of the Inspector General, National Aeronautics and Space Administration  
Office of the Inspector General, National Science Foundation

### **Non-Government Organizations**

Board of Trustees, Analytic Services Inc.  
Audit Committee, Analytic Services Inc.  
Senior Vice President and Chief Financial Officer, Analytic Services Inc.  
Controller, Analytic Services Inc.  
Partner-in-Charge, McGladrey & Pullen, LLP  
Audit Manager, McGladrey & Pullen, LLP  
Board of Directors, American Institute of Certified Public Accountants

---

## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Homeland Security and Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency and Financial Management  
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform  
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census

---

# Analytic Services Inc. Comments



2900 South Quincy Street • Suite 800 • Arlington, VA 22206 • 703.416.2000 • www.anser.org

**Joan R. Zaorski**  
*Senior Vice President and  
Chief Financial Officer*

17 August 2005

Ms. Sharon Vasquez  
Single Audit Technical Specialist  
Department of Defense  
Office of the Inspector General  
400 Army Navy Drive  
Arlington, VA 22202-4704

Dear Ms. Vasquez:

We are in receipt of your facsimile dated 9 August 2005 regarding the report of fiscal year 2002 findings from the Quality Control Review of Office of Management and Budget Circular A-133 (OMB A-133) single audit for Analytic Services Inc. The report was reviewed in its entirety by senior management and discussed at a meeting of our Audit Committee and Board of Trustees on 16 August 2005.

Please be assured that Analytic Services takes the findings reported very seriously and will cooperate fully with the Office of the Inspector General to achieve satisfactory resolution. Comments on the specific recommendations for Analytic Services are as follows.

**Recommendation A:** Management concurs and will ensure that appropriate coordination between auditors is addressed at future annual audit planning meetings with independent auditors.

**Recommendation B:** Direction to address specific deficiencies identified in the single audit, at the earliest possible date, will be provided to McGladrey & Pullen, LLP by the Chair of the Audit Committee. Since in the normal course of audit services Analytic Services does not have visibility into the work papers of our independent auditors nor the in-depth technical expertise to guarantee the specific deficiencies are addressed, McGladrey & Pullen will be directed to re-perform the audit in accordance with OMB A-133 and Government auditing standards.

**Recommendation C:** Upon receipt of the revised reporting package, Analytic Services will promptly notify the Office of the Inspector General. Submission of the revised FY 2002 single audit reporting package to the Federal Audit Clearinghouse will be coordinated with your office to ensure the follow-up Quality Control Review is performed prior to submission.

---

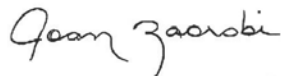
Ms. Sharon Vasquez  
Page 2

**Recommendation D:** Analytic Services will review all costs associated with FY 2002 single audit services to make certain that the government does not incur any additional cost in conjunction with the correction of these deficiencies. Any additional costs incurred by Analytic Services for completion of an acceptable audit report will be recorded as an unallowable expense.

**Recommendation E:** Analytic Services revised the FY 2002 Schedule of Expenditures of Federal Awards in accordance with OMB A-133 and forwarded the information to McGladrey & Pullen on 8 June 2005. In addition, similar revisions were made to our FY 2003 Schedule of Expenditures of Federal Awards and provided to McGladrey & Pullen. Finally, the Schedule of Expenditures of Federal Awards for FY 2004 was prepared and submitted in accordance with OMB A-133.

If you would like to discuss this further I can be reached at (703) 416-3404.

Sincerely,





# McGladrey & Pullen Comments

## McGladrey & Pullen

Certified Public Accountants

McGladrey & Pullen, LLP  
6701 Democracy Blvd., Ste. 600  
Bethesda, MD 20817-7520  
Q 301.897.0257 F 301.897.2020  
www.mcgladrey.com

July 6, 2005

Ms. Janet Stern  
Project Manager  
Audit Policy and Oversight  
400 Army Navy Drive, Room 1022  
Arlington, VA 22202-4704

Re: Projects No. D2005-DIPOAI-0119  
*Report on Quality Control Review of McGladrey & Pullen, LLP Office of  
Management and Budget Circular A-133 Audit Report of the Analytic  
Services Inc., Fiscal Year Ended September 30, 2002*

Dear Ms. Stern:

Following you will find our comments to the specific Findings and Recommendation contained in your Discussion Draft of a Proposed Report for the quality control review (QCR) referred to above:

### **Finding A. Audit Coordination**

*"The McGladrey and Pullen auditors did not coordinate the single audit of ANSER for fiscal year ending September 30, 2002. Specifically, the auditors did not review and consider the work of the Defense Contract Audit Agency (DCAA)..."*

DCAA reviews our work on a regular basis and has never mentioned any issues or concerns to us related to the coordination of our audit approach with theirs. We were aware that DCAA had performed a number of reviews for the year in question. Based on our past practices with DCAA, if DCAA were aware of anything that would materially impact the scope of our audit they would have communicated this to us.

To meet your expectations in the future we will confer with DCAA prior to the start of our planning of the engagement to learn of any DCAA reports issued or in process. We will specifically review each of these reports with them and make sure the results of their reviews are documented and incorporated into the scope of our Circular A-133 audit engagement.

### **Finding B. Performance of the Review of Internal Control and Compliance Over Financial Reporting**

*"The McGladrey & Pullen auditors did not adequately plan and perform the review of internal control and compliance over financial reporting because the auditors did not:*

- *Gain an understanding of internal control over compliance with laws, regulations, and contract provisions that could have a material effect on the determination of financial statement amounts;*

McGladrey & Pullen, LLP is a member firm of RSM International –  
an affiliation of separate and independent legal entities.

- *Design and perform adequate procedures to test compliance and to follow-up on disclosed exceptions; and*
- *Determine the cause of unusual balances in the review of accounts receivable balances."*

We identified a number of material compliance requirements in various sections of the audit workpaper file. In our permanent-file documentation of internal controls, we documented our understanding of the elements of control for each of the identified material account balances and classes of transactions, which would include our understanding of how relevant material compliance requirements are addressed. The back-of-file section of our workpaper file contains our actual substantive tests, including where applicable, tests of compliance with laws and regulations that we identified as material to the determination of financial statement amounts. Further, the front-of-file section of the workpaper file contains a specific form as well as other indications that we considered the potential for illegal acts that might materially impact the determination of financial statement amounts. Lastly, we believe the accounts receivable section specifically contains an analysis of "unusual balances". We call your attention to Attachments A-1 and A-2.

Although the engagement complied with the minimum level of documentation required by professional standards in this area, we recognize that the audit approach did not address all of the requirements that in your office's judgment were material. The approach used will be modified to more specifically address and document our review of internal control and compliance over those requirements specifically cited in your draft.

**Finding C. Performance and Documentation of Federal Program Audit**

*"The McGladrey & Pullen auditors did not adequately perform and document the single audit of ANSER's major Federal program according to OMB Circular A-133 requirements and GAS. The auditor's work did not support their opinion on compliance with major program requirements and on the fair presentation of the SEFA and the Summary Schedule of Prior Audit Findings. The auditors did not adequately:*

- *Plan for audit coverage for two of the applicable compliance requirements;*
- *Perform tests of internal control over compliance and compliance with major program requirements;*
- *Perform procedures to determine the completeness and appropriateness of the SEFA; and*
- *Perform procedures to assess the reasonableness of the Summary Schedule of Prior Audit Findings."*

We believe our workpaper addressed the two requirements in question and that our documentation complied with the minimum amount required by professional standards. You have cited certain areas where our efforts could be expanded and we will modify our approach accordingly.

Following is an excerpt from the audit workpaper file. Costs were tested for the following provisions (actual references to contract provisions or cites from OMB Circulars are not specifically identified):

ANSER is almost 100% federally funded. The only income the organization receives that is not federal is income from investments and other misc. sources. All of the organization's federal awards are in a single R&D cluster. Our approach for testing expenses includes internal control tests over cash disbursements, payroll and major transactions, reasonableness tests of total payroll, rent, depreciation, and other sundry expense items.

All of the costs tested were reviewed for the following compliance requirements (if applicable to the item of cost tested):

- For State and local governments, authorized or not prohibited under State or local laws or regulations.
- Approved by the Federal awarding agency, if required.
- Conform with the allowability of costs provisions of applicable OMB cost principles, or limitations in the program agreement, program regulations, or program statute.
- Conform with the allowability provisions of applicable OMB cost principles circulars.
- Represent charges for actual costs, not budgeted or projected amounts.
- With respect to fringe benefit allocations, charges, or rates, such allocations, charges, or rates are based on the benefits received by different classes of employees within the organization.
- Applied uniformly to Federal and nonfederal activities.
- Given consistent accounting treatment within and between accounting periods. Consistency in accounting requires that costs incurred for the same purpose, in like circumstances, be treated as either direct costs only or indirect costs only with respect to final cost objectives.
- Calculated in conformity with CASB standards, generally accepted accounting principles or another comprehensive basis of accounting, when required under the cost principles circulars or CASB standards. Costs for post-employment benefits must be funded to be allowable.
- Not included as a cost or used to meet cost sharing requirements of other federally-supported activities of the current or a prior period.
- Net of all applicable credits, e.g., volume or cash discounts, insurance recoveries, refunds, rebates, trade-ins, and scrap sales.
- Not included as both a direct billing and as a component of indirect costs, e.g., excluded from cost pools included in CAPs and/or IDCPRs, if charged directly to Federal awards.
- Supported by appropriate documentation, such as approved purchase orders, receiving reports, vendor invoices, canceled checks, and time and attendance records, and correctly charged as to account, amount, and period. Documentation requirements for salaries and wages, and time and effort distribution are described in applicable OMB cost principles circulars. Documentation may be in an electronic form.

The duplicate payments in question were documented for MLC but determined to be immaterial.

The \$531,964 relating to old contracts we reclassified to a liability account. These costs do not relate to 2002 year under audit.

Our unbilled testing support 55% of unbilled with Descriptions of why and analysis, please refer to Attachments B-1 and B-2.

We did obtain an explanation of why ASWER was unable to bill.

We believed the procedures over equipment and property were adequate and submit the following excerpt from the workpapers for your consideration:

ANSER's policy is to maintain an inventory of all tangible assets purchased with federal funds that have a useful life of one year or more. For all Department of Defense contracts, the Senior Property Manager conducts quarterly inventory by sending blank countsheets to the various locations where the assets are maintained. He then reconciles the count sheets to a perpetual inventory listing of assets purchased with federal funds. For non-DOD contracts, the property manager informs the program staff of the compliance requirements, who then are responsible for them. The client's policies are documented in a "Government Property Policy and Procedure Manual" See PF 737.

#### **Current year testing**

Inquire if a required physical inventory of equipment acquired under Federal awards was taken within the last two years. Test whether any differences between the physical inventory and equipment records were resolved. **Per client inquiry, an inventory was taken in Sep'02. M&P reviewed inventory count sheets submitted to the various locations (Sep 5, 2002), which had to be signed and returned to the property administrator.**

Scanned GL detail of equipment acquired under federal awards for 2002.

Judgmentally selected four items from the client's property listing and examined the related asset or a documentation of purchase (There were no disposals in FY'02). **M&P traced all items selected to the asset or a record of its acquisition w/o/x)**

We believe the workpapers evidence that we evaluated the completeness and appropriateness of the SEFA. Professional standards did not require us to prepare, a separate audit program sheet to evidence this evaluation. However, to meet your expectations, we can document our testing on a separate audit program sheet.

Prior audit findings were addressed in a memo, see Attachments C-1 and C-2.

The workpapers evidence our consideration of the reasonableness of management's comments. Professional standards did not require us to prepare a separate audit program sheet to evidence this evaluation. However, to meet your expectations, we can document our testing on a separate audit program sheet.

Throughout the fieldwork process, members of the QCR team shared their thoughts and expectations with us concerning the level of documentation expected, the types of evidence you expect to see in the workpaper file, and the expected scope of certain of our procedures. We plan to incorporate these, whether enumerated in the draft or not, into the scope of our future audits.

#### **Finding D. OMB Circular A-133 Reporting Package**

*"The McGladrey & Pullen auditors did not prepare the Data Collection Form according to the OMB Circular A-133 requirements and the Data Collection Form instructions."*

We agree that Part III of the Data Collection Form did not contain the level of detail specified in the instructions to the form.

**Recommendation a.**

*"Coordinate all future Office of Management and Budget Circular A-133 audits with the Defense Contract Audit Agency."*

As noted above, for all future audits we will initiate contact with DCAA. We will meet with DCAA prior to the start of planning of the engagement to learn of any DCAA reports issued or in process. We will specifically review each of these reports with them and make sure the results of their reviews are incorporated into the scope of our Circular A-133 audit engagement.

**Recommendation b.**

*"Redo the single audit of Analytic Services Inc. for the fiscal year ended September 30, 2002, related to the review of internal control and compliance over financial reporting and the major Federal program and revise the reporting package to reflect, at a minimum, the date the work is completed. The audit procedures should address the specific deficiencies identified in this report and be performed in accordance with Office of Management & Budget Circular A-133 and government audit standards at no additional costs. The revised reporting package should be provided to ANSER."*

In the interest of demonstrating our desire to cooperate fully with the DoD IG, we agree to update our audit workpaper file for the audit in question. We will implement all of the actions proposed by the IG in the Draft report as soon as possible. We will also, review any audits performed for ANSER subsequent to the September 30, 2002, to see if similar improvements are necessary. Reporting packages will be re-issued (including subsequent dating) in accordance with applicable professional standards.

**Recommendation c.**

*"Revise the McGladrey & Pullen audit programs to include appropriate audit procedures to perform an internal control review and compliance testing for contract provisions in support of the Report on Compliance and Internal Control Over Financial Reporting for future engagements."*

The Firm already provides guidance and audit tools to facilitate this process. The Firm's guidance will be fully implemented and the recommended tools used. During the planning process the tools will be appropriately tailored for the specifics of the ANSER audit engagement.

**Recommendation d.**

*"Obtain formal training for all personnel working on single audits to ensure future audits comply with government auditing standards and the audit requirements of Office of Management and Budget Circular A-133."*

The office has made arrangements with the Firms' Director of Services to the Public Sector, Brian Schebler for a special training session to be held this fall. Mr. Schebler is a member of the AICPA's Government Audit Quality Center and is a new appointee to the GAO's Advisory Counsel on Government Auditing Standards. The session will specifically focus on the issues addressed in the IG's Draft as well as other topics specific to the profession's experience with the National Single Audit.

**Recommendation e.**

*"Ensure that adequate supervision is provided to personnel working on Office of Management and Budget Circular A-133 audits."*

As a matter of Firm policy and procedure all audit engagements are adequately staffed to provide for a sufficient level of supervision. In all client matters the engagement team collectively possess both the expertise and experience necessary to perform the engagement in accordance with the requirements of GAAS, GAS, the Single Audit Act and OMB Circular A-133.

**Recommendation f.**

*"Prepare the appropriate sections of the Data Collection Form in accordance with OMB Circular A-133 requirements and the instructions for the Data Collection Form."*

In connection with our implementation of Recommendation b. above, we will review the need for corrections to the Data Collection Form(s) as originally submitted. Any necessary corrections will be made and (an) amended form(s) submitted.

Although not required by professional standards, for the next 12 months all Data Collections Forms submitted by the office will be subject to a formal review by an audit and accounting specialist.

**Conclusion**

We are prepared to take further steps beyond those required by GAAS, GAS and OMB Circular A-133 to ensure that the DoD Inspector General will accept our report.

Sincerely,

**McGladrey & Pullen, LLP**



Robert Billig, CPA  
Partner

cc: Brian A. Schebler  
Director of Services to the Public Sector  
3600 American Blvd. West,  
3<sup>rd</sup> Floor  
Bloomington, MN 55431