

# Inspector General

United States  
Department of Defense



Oversight Review

January 25, 2008

Report on Quality Control Review  
of FY 2006 Single Audit of  
Syracuse Research Corporation

Report No. D-2008-6-002

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### **Acronyms**

DCAA	Defense Contract Audit Agency
GAS	Government Auditing Standards
OMB	Office of Management and Budget
PWC	PricewaterhouseCoopers, LLP
SRC	Syracuse Research Corporation



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

JAN 25 2008

Chief Financial Officer  
Syracuse Research Corporation

Audit Committee  
Syracuse Research Corporation

Defense Contract Audit Agency

Partner  
PricewaterhouseCoopers, LLP

SUBJECT: Report on Quality Control Review of FY 2006 Single Audit of Syracuse Research Corporation (Report No. D-2008-6-002)

We are providing this report for your information and use. As the cognizant Federal agency for the Syracuse Research Corporation (SRC), we performed a review of the Defense Contract Audit Agency (DCAA) and PricewaterhouseCoopers, LLP (PWC) single audit and supporting workpapers for the fiscal year ended September 30, 2006, to determine whether the audit was conducted in accordance with Government Auditing Standards (GAS) and the auditing and reporting requirements of Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," (OMB Circular A-133). Appendix A contains additional background, scope and methodology for the review and Appendix B lists the compliance requirements applicable to the FY 2006 single audit.

**Background.** SRC is an independent, not-for-profit research and development corporation chartered by the State of New York. SRC provides services mainly to federal government organizations in a wide array of technology areas, including development of sensor systems, signal processing, information science and engineering, operational integration and environmental chemistry and risk assessment. SRC has offices in ten locations, along with numerous customer support sites throughout the United States and is headquartered in Syracuse, New York. SRC expended \$122.8 million in Federal awards for the fiscal year ended September 30, 2006 under one Federal program, the Research and Development Cluster. Of the \$122.8 million, \$113.7 million was expended for Department of Defense programs.

**Review Results.** The DCAA auditors did not comply with OMB Circular A-133 requirements, auditing standards, and DCAA guidance when performing and documenting the FY 2006 single audit. Consequently, the audit work did not provide sufficient evidence to support the auditors' conclusions on SRC's internal control over compliance and compliance with requirements



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applicable to the Research and Development Cluster. Because of the deficiencies identified in our review, additional audit work was needed before Federal agencies could rely on the audit to manage Federal award programs.

As a result of our discussions with DCAA throughout our site visit, DCAA took immediate corrective actions on the deficiencies cited in this report. During the period September 4, 2007 to October 4, 2007, the DCAA provided our office with documentation and verbal explanations of additional audit procedures performed. The supplemental audit work generally complied with OMB Circular A-133 requirements and supported the audit conclusions on internal control and the opinion on compliance with Federal requirements. Therefore, Federal agencies can rely on the FY 2006 single audit report to monitor and manage their programs. The results of our review and DCAA corrective actions are discussed in the Finding below.

The PWC audit of the financial statements met auditing standards and OMB Circular A-133 requirements. During our exit conference with PWC, we discussed opportunities for future enhancements to audit documentation. These enhancements are discussed in the “Other Matters of Interest” section of this report. SRC complied with OMB Circular A-133 reporting requirements.

**DCAA Management Comments and DoD IG Response.** DCAA concurred, or concurred in principle, with our recommendations and agreed to take corrective actions that satisfy the intent of the recommendations. DCAA also provided comments that addressed their position on our finding and conclusion. Management comments and our responses are discussed in the Finding and Recommendation sections and are included in their entirety at the end of this report.

## Finding

**Performance and Documentation of the Federal Program Audit.** The DCAA auditors did not adequately perform and document the single audit of the SRC major Federal program in accordance with OMB Circular A-133 requirements, GAS, and DCAA guidance. As a result, there was insufficient evidence to show that the audit procedures addressed the objectives of five of the ten compliance requirements: Equipment; Period of Availability; Procurement, Suspension, and Debarment; Subrecipient Monitoring; and Special Tests and Provisions. In addition, because of inadequate documentation we spent considerable time obtaining verbal explanations and reviewing other DCAA audit assignments to conclude that there was sufficient evidence to support the audit conclusions on four additional requirements: Activities Allowed/Unallowed, Allowable Costs/Cost Principles, Cash Management, and Reporting.

OMB Circular A-133 requires the auditor to obtain an understanding of internal control, plan the testing of controls, and perform the planned testing for each applicable compliance requirement. The auditor uses the results of the review of internal control to plan the nature and extent of compliance testing to determine whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect on its major programs.

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Government auditing standards and DCAA policies and procedures require that sufficient detail be included in the audit documentation to provide an experienced auditor who has had no previous connection with the audit to ascertain from the documentation the evidence that supports the auditors' significant judgments and conclusions. Audit documentation should be appropriately detailed to provide a clear understanding of its purpose and source and should be appropriately organized to provide a clear link to the findings, conclusions, and recommendations.

**Performance of Internal Controls and Compliance Testing.** The DCAA auditor did not adequately perform the audit to support the conclusions on internal controls and compliance with Equipment; Period of Availability; Procurement, Suspension, and Debarment; Subrecipient Monitoring; and Special Tests and Provisions requirements. During our site visit, we requested the auditor provide additional explanation and support for the audit procedures performed; however, the auditor was unable to provide additional information to mitigate the deficiencies identified.

**Equipment Compliance Requirement.** The DCAA auditor did not document an understanding of internal control processes or perform procedures to determine SRC internal control over and compliance with Equipment compliance requirements. The objectives of this requirement include verifying that the organization maintains proper records, adequately safeguards and maintains equipment, and disposes of equipment in accordance with Federal requirements.

The only documentation to support the testing of internal control and compliance was a copy of SRC's Government equipment list and a cross-reference to another DCAA annual audit where the objective was to test for the need and use of material purchases. The Government equipment listing was 138 pages and the work papers did not identify the transactions reviewed or the tests performed. We also reviewed the referenced material purchases audit even though the stated objectives of that audit are not focused on equipment management. While the work papers stated that the auditor verified that items were properly identified as government equipment, the documentation did not identify the equipment tested or explain what criteria was used to determine that government equipment was properly identified. For compliance testing, the attributes tested addressed the material purchase audit objectives but were not relevant to testing for compliance with equipment management requirements.

**Period of Availability Compliance Requirement.** The DCAA auditor developed an understanding of internal controls, but the documentation did not include evidence to support the testing of controls or compliance testing performed to ensure that charges to Federal awards resulted from obligations incurred during the funding period. The documentation did not provide an audit trail between the description of internal controls, the controls to be tested, and the evidence of testing performed. The understanding of internal control identified multiple controls but the auditor did not state which controls they planned to test. The auditor referenced multiple work papers to support the testing of controls, but the work papers did not include sufficient information to discern what controls were tested or the procedures performed. The auditor planned to test compliance with this requirement, but did not include sufficient evidence to support the testing performed. For example, the auditor stated that billings were

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reviewed to verify if any costs were outside the period of performance and that period of availability was tested during the direct cost transaction testing. However, the work papers did not identify specific billings reviewed and the direct cost transaction testing did not identify period of availability requirements.

**Procurement, Suspension, and Debarment Compliance Requirement.** The DCAA auditor developed an understanding of internal controls and identified key controls for testing. However, the referenced documentation did not include evidence to support the planned testing of controls or compliance testing performed to obtain assurance that procurements provide for full and open competition, documentation exists to support the rationale to limit competition, cost or price analyses are performed, and verification that procurements and subawards are not made to suspended or debarred parties.

The auditor planned to test multiple controls, but the documentation only addressed testing for approvals. However, the documentation was not specific on which approvals were tested. For compliance testing, the DCAA auditor planned to test seven subcontractors to determine if they were suspended or debarred; however, the referenced documentation did not address suspension and debarment testing at all. In addition, there was no evidence of compliance testing for the other procurement objectives of this requirement.

**Subrecipient Monitoring Compliance Requirement.** The DCAA auditor did not include evidence to support the planned testing of internal control or compliance to support their opinion on compliance. The objectives of this compliance requirement include determining whether the pass-through entity properly identified Federal award information and compliance requirements to the subrecipient, monitored subrecipient activities to provide reasonable assurance that the subrecipient administered Federal awards in compliance with requirements, ensured required audits were performed, and took the required actions on audit findings.

The auditor planned to test multiple controls but not all of the controls related to the objectives of this requirement. In addition, the audit procedures were not applied consistently to all selected items and the documentation did not include sufficient information to determine the specific nature of the testing performed. For example, the auditor referenced a work paper with approximately 80 subcontracts to perform testing for this requirement, including the test to determine the flow down of contract clauses. However the work paper indicated that this specific test was only performed on one sample item. In another instance, the documentation stated that monitoring was reviewed but did not identify the specific monitoring actions tested. The auditor did not identify any specific procedures performed for compliance testing and did not indicate if the internal control testing was intended to serve as a dual-purpose test of internal control and compliance.

**Special Tests and Provisions Compliance Requirement.** The DCAA auditor did not adequately document an understanding of internal control processes or include evidence on procedures performed to determine SRC internal control over and compliance with the Special Tests and Provisions requirement. The DCAA auditor documented the key personnel clause as the only special test and provision included in SRC contracts. The objectives of the key personnel requirement, as described in the OMB Circular A-133 Compliance Supplement,

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include determining whether SRC adhered to key personnel commitments specified in the proposal and obtained Federal awarding office approval for any changes of key personnel.

The auditor identified multiple controls that were generic for procurement and subcontract management. However, it was not clear how these controls satisfied the objectives related to key personnel requirements and the documentation did not include sufficient information on the testing of controls to show the relevance to key personnel requirements. For compliance testing, the auditor stated that they verified that the rates used for billing purposes were the rates included in the contracts. However, the work papers did not contain any evidence of this testing. In addition, it was not apparent how this verification would support the objectives related to key personnel requirements.

**DCAA Corrective Actions.** Based on discussions throughout our site visit, DCAA performed additional audit procedures prior to issuance of our draft report to correct the deficiencies we identified in the audit of the Equipment; Period of Availability; Procurement, Suspension, and Debarment; Subrecipient Monitoring; and Special Tests and Provisions compliance requirements and provided supporting documentation for our review. Based on our review of the documentation and additional verbal explanations provided by the DCAA auditor, we consider the DCAA corrective actions sufficient. However, we did identify and discuss with the DCAA auditor further enhancements to audit documentation for future single audits.

**Documentation of Internal Controls and Compliance Testing.** The DCAA auditor did not adequately document the review of internal controls and compliance testing on the Activities Allowed/Unallowed, Allowable Costs/Cost Principles, Cash Management, and Reporting requirements. As a result of the inadequate documentation, we spent considerable time obtaining verbal explanations from the auditor on the procedures performed, reviewing audit assignments, and reviewing the SRC policies and procedures, to enable us to determine whether there was sufficient evidence to support DCAA audit conclusions. Based on our additional effort, we were able to conclude that there was sufficient evidence to support the auditor's conclusions on the following compliance requirements.

**Activities Allowed/Unallowed and Allowable Costs/Cost Principles.** While the DCAA auditor documented an understanding of the internal control processes, the documentation did not include the source for all controls identified. The auditor also did not clearly identify the controls they planned to test, provide an adequate audit trail to the internal control testing performed, or include sufficient evidence to support the testing of controls and compliance testing performed. For example, the auditor referenced an audit assignment for testing of controls but did not specify what controls were being tested or if the auditor identified controls they did not consistently indicate where the testing was performed. The documentation also did not include sufficient information to be able to discern the evidence reviewed to support the auditor's conclusions on internal control over and compliance with this requirement.

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**Cash Management.** The DCAA auditor identified multiple controls but did not focus the review of internal control on controls relevant to Cash Management requirements applicable in SRC's cost reimbursement environment. The auditor did identify one control relevant to SRC's environment, but did not adequately document the testing performed.

**Reporting.** The documentation in the audit was not adequate to support the auditor's opinion on the Reporting compliance requirement. The DCAA auditor determined that only one contract had a reporting requirement and limited the testing of controls and compliance testing to this one contract. However, during our site visit, we reviewed copies and extracts of contracts in the audit files and identified multiple contracts that contained reporting requirements.

**Documentation of Other Areas.** The DCAA auditors did not include adequate documentation in accordance with GAS and DCAA policies and procedures to support the conclusions reached on non-applicable compliance requirements, the low risk auditee determination, the Schedule of Expenditures of Federal Awards, or the coordination with DCAA Field Detachment. However, based on extensive discussions with the DCAA auditor, review of prior A-133 audit reports, and additional supporting documentation provided during our site visit, we were able to conclude that there was sufficient evidence to support the auditor's conclusions.

**Conclusion.** The DCAA audit, as originally performed, did not meet the requirements of OMB Circular A-133, the related Compliance Supplement, GAS, and DCAA guidance. As a result, we spent considerable time reviewing additional audit assignments and discussing work paper content with the DCAA to make our determinations on the adequacy of the audit work. The DCAA also spent additional time supporting and re-performing the audit work. In addition, prior quality control reviews of DCAA single audit work identified similar deficiencies in the performance and documentation of audit requirements. See Appendix A for further details on the prior quality control reviews. Because of the deficiencies discussed in this report and in the prior quality control reviews, we conclude that additional supervision and training is needed for auditors performing single audits to ensure compliance with GAS and OMB Circular A-133 requirements.

**DCAA Management Comments on the Finding.** DCAA management agreed that the sufficiency and level of documentation in certain areas of internal controls and compliance testing could have been improved but they believe the audit was substantively conducted in accordance with OMB Circular A-133 requirements, GAS, and DCAA guidance. DCAA also stated that there was evidence of supervisory and branch manager review in the working papers and they believe the audit received an adequate level of supervisory involvement considering the knowledge and experience of the staff and the complexity of the audit.

**DoD IG Response.** We disagree with the DCAA position that the audit substantively complied with OMB Circular A-133 requirements, GAS, and DCAA guidance and was adequately supervised. DCAA did not provide any new information to support their comments that would cause us to change our conclusion. As discussed in the Finding, the working papers



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did not include sufficient details or a clear audit trail for us to determine the procedures performed and the evidence obtained to support the auditor's judgments and conclusions. The working papers did not always address the objectives of the requirement reviewed and they did not clearly identify the items being tested or the actual testing performed for internal control and compliance. As a result, we were unable to ascertain from the documentation the evidence that supported the auditors' significant judgments and conclusions. The quality issues disclosed during our review indicate the lack of an appropriate level of supervisory review to ensure that the working papers provide sufficient evidence to support the audit findings and conclusions.

## Recommendations, Management Comments, and DoD IG Response

### Recommendation 1. **We recommend that the Director, Defense Contract Audit Agency:**

- a. **Ensure that personnel planning, directing, performing field work, or reporting on single audits receive formal training so that future audits comply with the audit requirements of the Office of Management and Budget Circular A-133.**
- b. **Require regional management to establish an appropriate quality control monitoring process for Office of Management and Budget Circular A-133 audit reports and work papers to ensure that future single audits comply with Government auditing standards and the audit requirements of the Office of Management and Budget Circular A-133.**

**DCAA Headquarters Comments.** DCAA concurred with Recommendation 1.a. DCAA will re-emphasize the training requirements in guidance to be issued by February 2008. In FY 2008, DCAA is also planning to hold a workshop to cover new guidance on A-133 audits and to address issues raised in this review. DCAA concurred in principle with Recommendation 1.b. DCAA plans to review each region's quality control instructions and assess the need for additional procedures to specifically cover A-133 audits. DCAA estimates their assessment will be completed by February 28, 2008.

**DoD IG Response.** We request that DCAA provide us with the estimated date of the single audit workshop and also provide a detailed agenda prior to the workshop. We accept the DCAA proposed action for Recommendation 1.b as meeting the intent of the recommendation. DCAA should provide us with the results of their assessment once completed.

### Recommendation 2. **We recommend that the Branch Manager, Defense Contract Audit Agency, Upstate New York Branch Office, ensure that personnel working on Office of Management and Budget Circular A-133 audits are monitored and supervised to ensure that future single audits meet the objectives of the Office of Management and Budget Circular A-133 audit and include adequate documentation in accordance with Government auditing standards.**

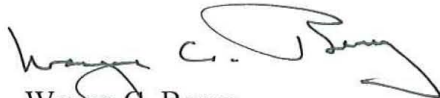
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**DCAA Northeastern Region Management Comments.** DCAA concurred with the recommendation. The Branch Manager will address the areas noted in this review as part of performing future A-133 audits. Representatives of the branch office will also attend the DCAA FY 2008 A-133 workshop which will address the issues raised in this review.

**Other Matters of Interest.** The PWC audit documentation included sufficient evidence to support their audit conclusions on the financial statements. However, for future single audits, we suggest that PWC enhance links to the audit steps related to testing of laws, regulations, and contract terms that have a material effect on the financial statements and to all audit steps performed for the consideration of fraud.

We also suggest in future single audits that SRC ensure that the DCAA auditors and the financial statement auditors formally coordinate in the audit planning process to achieve a comprehensive and cost-effective audit in accordance with GAS and OMB Circular A-133.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Ms. Janet Stern at (703) 604-8750 or Ms. Carol Vogler at (703) 604-9657. See Appendix C for the report distribution.



Wayne C. Berry  
Acting Assistant Inspector General  
for Audit Policy and Oversight

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# Appendix A. Quality Control Review Process

## Background, Scope and Methodology

The Single Audit Act, Public Law 98-502, as amended, was enacted to improve the financial management of State and Local Governments and nonprofit organizations by establishing 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. Entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) 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 Government Auditing Standards and submit a complete reporting package to the Federal Audit Clearinghouse.

We reviewed the DCAA and PWC audit of Syracuse Research Corporation for FY 2006 and the resulting reporting package that was submitted to the Federal Audit Clearinghouse on June 29, 2007, using the 1999 edition of the “Uniform Quality Control Guide for the A-133 Audits” (the Guide). 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. We performed the review from August through November 2007. The review focused 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, and
- Data Collection Form.

## Prior Quality Control Reviews

Since October 1, 2002, we have performed three quality control reviews of DCAA and PWC OMB Circular A-133 audits. All three reports contained deficiencies resulting in findings and recommendations on audit planning, performance, and documentation. Unrestricted IG DoD reports can be accessed at <http://www.dodig.osd.mil/audit/reports>.

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## IG DoD Reports

IG DoD Report No. D-2006-6-002, “Report on Quality Control Review of the PricewaterhouseCoopers LLP and the Defense Contract Audit Agency Office of Management and Budget Circular A-133 Audit Report of the RAND Corporation, Fiscal Year Ended September 29, 2002,” December 16, 2005

IG DoD Report No. D-2004-6-007, “Quality Control Review of PricewaterhouseCoopers, LLP and the Defense Contract Audit Agency Office of Management and Budget Circular A-133 Audit Report of the Institute for Defense Analyses, Fiscal Year Ended September 28, 2001,” July 16, 2004

IG DoD Report No. D-2004-6-002, “Quality Control Review of PricewaterhouseCoopers, LLP and the Defense Contract Audit Agency Office of Management and Budget Circular A-133 Audit Report of the MITRE Corporation, Fiscal Year Ended September 30, 2001,” October 21, 2003

## Appendix B. Compliance Requirements

OMB Circular A-133 Compliance Requirements	Applicable	Not Applicable
Activities Allowed/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, Suspension, and Debarment	X	
Program Income		X
Real Property Acquisition and Relocation Assistance		X
Reporting	X	
Subrecipient Monitoring	X	
Special Tests and Provisions	X	



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## **Appendix C. Report Distribution**

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

Under Secretary of Defense for Acquisition, Technology, and Logistics  
Director, Defense Procurement and Acquisition Policy  
Under Secretary of Defense (Comptroller)/Chief Financial Officer  
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Deputy Comptroller (Program/Budget)

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Director, Defense Contract Audit Agency  
Regional Director, Defense Contract Audit Agency, Northeastern Region  
Branch Manager, Defense Contract Audit Agency, Upstate New York Branch Office

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

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

### **Department of the Army**

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Office of the Inspector General, Department of Homeland Security

### **Non-Government Organizations**

Audit Committee, Syracuse Research Corporation  
Chief Financial Officer, Syracuse Research Corporation  
Partner, PricewaterhouseCoopers, LLP

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## **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  
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House Committee on Armed Services  
House Committee on Oversight and Government Reform  
House Subcommittee on Government Management, Organization, and Procurement,  
Committee on Oversight and Government Reform  
House Subcommittee on National Security and Foreign Affairs,  
Committee on Oversight and Government Reform



# Defense Contract Audit Agency Comments



DEFENSE CONTRACT AUDIT AGENCY  
DEPARTMENT OF DEFENSE  
8725 JOHN J. KINGMAN ROAD, SUITE 2135  
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PQA 225.4 (D2007-DIP0AC-0225)

January 7, 2008

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDIT POLICY AND  
OVERSIGHT, OFFICE OF THE INSPECTOR GENERAL,  
DEPARTMENT OF DEFENSE

SUBJECT: Response to Draft DoDIG Report on Review of FY 2006 Single Audit of  
Syracuse Research Corporation at the DCAA Upstate New York Branch Office  
(Project No. D2007-DIPOAC-0225)

Thank you for the opportunity to respond to the subject draft report. We disagree with the review results that the subject audit did not comply with OMB Circular A-133 requirements, auditing standards, and DCAA guidance to the extent cited by the DoDIG. While we do agree that the sufficiency/level of documentation in certain areas of internal controls and compliance testing could have been improved, we believe that the audit substantively complied with the auditing standards, as detailed in the response from the Regional Director, Northeastern Region (Enclosure 1).

We also note that the subject FY 2006 Single Audit of Syracuse Research Corporation was performed prior to an extensive revision made to DCAA's policy and standard audit program for performing OMB Circular A-133 compliance audits. This revised guidance was issued to the field on August 15, 2007 (MRD 07-PPD-026). We believe the revised audit guidance and audit program will address the issues noted in the DoDIG draft report when performing future DCAA OMB Circular A-133 compliance audits. Our comments/response to the report recommendations and the DoDIG findings are detailed below and in the attached memorandum from the Regional Director, Northeastern Region, dated January 7, 2008.

**DoDIG Recommendation 1a:** We recommend that the Director, Defense Contract Audit Agency ensure that personnel planning, directing, performing field work, or reporting on single audits, receive formal training so that future audits comply with the audit requirements of the Office of Management and Budget Circular A-133.

**DCAA Response:** Concur. DCAA policies and procedures already require compliance with the Generally Accepted Government Auditing Standard (GAGAS), General Standard of auditor competence (which includes the GAGAS Continuing Professional Education requirements). DCAA Contract Audit Manual (CAM) Section 2-202, Competence, includes the following:

*The staff assigned to perform the audit should collectively possess adequate professional competence for the tasks required.*

RQA-2 225.4 (D2007-DIPOAC-0225)

January 7, 2008

SUBJECT: Response to Draft DoDIG Report on Review of FY 2006 Single Audit of  
Syracuse Research Corporation at the DCAA Upstate New York Branch Office  
(Project No. D2007-DIPOAC-0225)

*a. This standard requires that those assigned to the job collectively have the technical knowledge, skill, and experience necessary for the task at hand. Their qualifications should be commensurate with the scope and complexities of the assignments....*

*b. The effectiveness of contract audits is governed in large measure by the caliber and training of the person or persons performing the work. The auditor is expected to have acquired through continuing education, training, and experience the ability to plan, to devise and apply effective audit procedures; to determine facts; to make reasonable judgments and decisions; and to prepare objective and effective reports.*

To meet the GAGAS training requirements, DCAA requires 80 hours of Continuing Professional Education (CPE) every 2 year reporting period. Auditors may meet this standard by obtaining CPE from either internal or external sources. For those auditors/supervisors involved with performing /supervising A-133 compliance audits, DCAA policy already requires auditors/supervisors to collectively maintain proficiency to perform the A-133 audit by acquiring continuing education and training related to the A-133 compliance audit. To address the DoDIG's concern, we will re-emphasize this requirement in an MRD to be issued by February 2008. DCAA makes available the formal training recommended by the DoDIG, such as the courses offered by the AICPA. We believe DCAA auditors performing A-133 compliance audits have continually met GAGAS requirements and have taken courses specifically related to A-133 and nonprofit organizations. Accordingly, we believe auditors performing A-133 audits possess the requisite training and proficiency to perform the audits in compliance with GAGAS. For FY 2008, DCAA plans to offer an A-133 technical specialist workshop to cover the new guidance issued in August 2007 and to address the DoDIG's concerns/issues raised in this review.

**DoDIG Recommendation 1b:** We recommend that the Director, Defense Contract Audit Agency require regional management to establish an appropriate quality control monitoring process for Office of Management and Budget Circular A-133 audit reports and work papers to ensure that future single audits comply with Government auditing standards and the audit requirements of the Office of Management and Budget Circular A-133

**DCAA Response:** Concur in Principle. DCAA already has an appropriate quality control monitoring process. DCAA A-133 compliance audits are subject to supervisory/management review as required by GAGAS. In addition, in accordance with DCAA Regulation 5600.1, *Delegation of Signature Authority for Audit Report and Other Audit Related Documents*, all DCAA A-133 compliance audit reports are required to be signed by the FAO manager. We believe the subject single audit of Syracuse Research Corporation received an adequate level of supervisory involvement that was both appropriate and timely considering the knowledge and experience of the staff and complexity of the audit. However, to address the DoDIG's concerns, we will review each region's quality control instructions and assess the need for additional regional procedures to specifically cover A-133 audits. We expect to complete this assessment by February 28, 2008.



RQA-2 225.4 (D2007-DIPOAC-0225)

January 7, 2008

SUBJECT: Response to Draft DoDIG Report on Review of FY 2006 Single Audit of  
Syracuse Research Corporation at the DCAA Upstate New York Branch Office  
(Project No. D2007-DIPOAC-0225)

**DoDIG Recommendation 2:** We recommend that the Branch Manager, Defense Contract Audit Agency, Upstate New York Branch Office, ensure that personnel working on Office of Management and Budget Circular A-133 audits are monitored and supervised to ensure that future single audits meet the objectives of the Office of Management and Budget Circular A-133 audit, and include adequate documentation in accordance with Government auditing standards.

**DCAA Response:** Concur. Please refer to the attached memorandum from the Regional Director, Northeastern Region for their response.

As stated above, the Northeastern Region has provided specific comments in response to the DoDIG draft report findings for your consideration in finalizing the report (Enclosure 1). Questions regarding this memorandum should be directed to Mary Silva, Chief, Quality Assurance Division, at (703) 767-2298.

/s/

Kenneth J. Saccoccia  
Assistant Director  
Policy and Plans

Enclosure:

Northeastern Region Response Draft Report on SRC A-133



Northeastern Region  
Response



NORTHEASTERN REGION  
DEFENSE CONTRACT AUDIT AGENCY  
DEPARTMENT OF DEFENSE  
59 COMPOSITE WAY, SUITE 300  
LOWELL, MASSACHUSETTS 01851-5150

IN REPLY REFER TO:

RQA-2 720.5.A (D2007-DIPOAC-0225)

January 7, 2008

MEMORANDUM FOR THE DIRECTOR, DCAA

ATTENTION: PQA

SUBJECT: Response to Draft DoDIG Report on Review of FY 2006 Single Audit of  
Syracuse Research Corporation (SRC) at the DCAA Upstate New York  
Branch Office (Project No. D2007-DIPOAC-0225)

The DoDIG report is being issued to determine whether the subject audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and the auditing and reporting requirements of Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." We disagree with the DoDIG review results that the DCAA auditors did not initially comply with OMB Circular A-133 requirements and auditing standards to the extent cited by the DoDIG. While we do agree that the sufficiency/level of documentation in certain areas of internal controls and compliance testing could have been improved, we believe that the auditor substantively complied with the auditing standards. Our comments and position relating to the recommendation and findings applicable to the Northeastern Region and Upstate New York Branch Office are detailed below:

**DoDIG Recommendation 2:** We recommend that the Branch Manager, Defense Contract Audit Agency, Upstate New York Branch Office, ensure that personnel working on Office of Management and Budget Circular A-133 audits are monitored and supervised to ensure that future single audits meet the objectives of the Office of Management and Budget Circular A-133 audit and include adequate documentation in accordance with Government Auditing Standards.

**DCAA Response:** Concur. We believe that the Upstate New York Branch Field Audit Office (FAO) met the GAGAS and Agency requirements. The audit was completed in accordance with the FAO quality procedures and included evidence of Supervisor and Manager review. We do agree that the documentation supporting the evidence could be improved. The DoDIG concerns will be considered and addressed as part of performing future A-133 compliance reviews. In addition, FAO representatives will plan to attend the Agency's FY 2008 A-133 workshop which will cover the DoDIG's issues/concerns raised in this review.

We are providing the following comments to address the DoDIG reported findings contained in their draft report to which we disagree. The comments are provided by sections contained in the DoDIG draft report.

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**Performance and Documentation of the Federal Program Audit.** The DoDIG draft report concludes that DCAA did not adequately perform and document the single audit of the SRC major Federal Program in accordance with OMB Circular A-133 requirements, GAGAS, and DCAA guidance. As a result, there was insufficient evidence to show that the audit procedures addressed the objectives of five of the ten compliance requirements: Equipment; Period of Availability; Procurement, Suspension and Debarment; Subrecipient Monitoring; and Special Tests and Provisions.

**DCAA Comments:** We believe that the audit was performed in accordance with the requirements of OMB Circular A-133, GAGAS, and DCAA guidance. We believe that the working papers substantively provide sufficient information for an experienced auditor to ascertain from the documentation the evidence that supports the audit conclusions. While we agree that the level/detail of documentation of internal controls and compliance testing can be improved, we do believe that the audit was substantively performed in accordance with the OMB Circular A-133 requirements for the five areas identified in the DoDIG draft report. Our comments pertaining to these five areas are detailed below.

**1. Equipment Compliance Requirement:** The DoDIG draft report concludes that DCAA did not document an understanding of internal control processes or perform procedures to determine SRC internal controls over and compliance with equipment compliance requirements.

**DCAA Comments:** The FAO did not originally plan to review internal controls for this compliance requirement because they determined this compliance requirement did not have a direct and material effect on the major program due to the low dollar value of equipment on cost type grants/contracts. The auditor performed some procedures to document an understanding of internal controls, however, these procedures were not sufficient to determine compliance with this requirement. We believe that the auditor's original risk determination was appropriate and do not agree that additional procedures were necessary. Nevertheless, to address the DoDIG's concerns, the auditor subsequently performed several supplemental audit procedures which included obtaining an understanding and testing of internal controls and performing additional compliance testing of equipment.

**2. Period of Availability Compliance Requirement:** The DoDIG draft report concludes that DCAA developed an understanding of internal controls, but the documentation did not include evidence to support the testing of controls or the compliance testing performed to ensure that charges to Federal awards resulted from obligations incurred during the funding period.

**DCAA Comments:** The auditor limited compliance testing because of reliance placed on the contractor's internal controls covering this compliance requirement. As noted in the risk assessment (Working Paper B), the contractor's accounting and billing systems were determined

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to be adequate as a result of current DCAA internal control audits. The auditor performed the following limited procedures, which we believe would be sufficient to meet the A-133 compliance objective to ensure that charges to Federal awards resulted from obligations incurred during the funding period, considering that the SRC's accounting and billing systems have been reviewed by DCAA and deemed adequate.

- Review of selected contract documents and noted that the period of availability date from the contract is included in the Contract Project Master screen in its accounting system to ensure that costs are not charged outside the period of performance.
- Review of selected billings to determine if any costs occurred outside the period of performance.
- Tested the period of availability of costs charged during the fiscal period for transactions selected/tested in another audit (Assignment Number 2501-2007M10170001).

We agree with the DoDIG that the working papers should have identified the selected billings reviewed. As stated above, we will ensure that future DCAA A-133 compliance reviews performed at SRC address the issues identified by the DoDIG. We believe the auditor's original level of testing was appropriate based on their assessed level of risk, although the working paper documentation could be improved. Nevertheless, to address the DoDIG's concerns, the auditor subsequently performed supplemental audit procedures.

**3. Procurement, Suspension and Debarment Compliance Requirement:** The DoDIG draft report concludes that DCAA developed an understanding of internal controls and identified key controls for testing. However, the referenced documentation did not include evidence to support the planned level of testing of controls or the compliance testing performed to obtain assurance that procurements provide for full and open competition, documentation exists to support rationale to limit competition, cost or price analyses are performed, and verification that procurements and subawards are not made to suspended or debarred parties.

**DCAA Comments:** The FAO's original audit effort included documentation supporting tests of compliance and internal controls with respect to the procurement objectives for this compliance requirement. Although we agree that the level of documentation could be improved, the auditor did document a review of subcontract files to validate controls were in effect. In addition, the auditor documented steps performed to verify selected subcontractors were not debarred from Federal procurements. While the original audit file did not include actual evidence from the GSA website that these subcontractors were not debarred, this step was performed and the work papers were documented stating that these subcontractors were not

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debarred. It should be noted that compliance with the auditing standards does not require copies of documents supporting detailed transactions be included in the file, but only a reference to the documents supporting transactions tested (GAGAS 6.22).

Although we believe the original audit effort substantively met the auditing standards in concluding SRC's compliance with this requirement, the FAO did perform supplemental procedures to improve the documentation to address the concerns raised by the DoDIG.

**4. Subrecipient Monitoring Compliance Requirement:** The DoDIG draft report concludes that DCAA did not include evidence to support the planned testing on internal controls or compliance to support their opinion on compliance.

**DCAA Comments:** The auditor's original working papers identified the testing of a number of controls on selected subcontracts and the auditor identified the subcontracts tested by highlighting them. The working papers document that the auditor tested procurement controls relating to competition, monitoring, and the proper flow down of contract clauses to subcontracts. Nevertheless, to address the DoDIG's concerns, the auditor performed supplemental effort, including documenting the basis of subcontract selection and testing/documenting additional subrecipient monitoring controls identified in the OMB A-133 Circular.

**5. Special Tests and Provisions Compliance Requirement.** The DoDIG draft report concludes that DCAA did not adequately document an understanding of internal control processes or include evidence on procedures performed to determine SRC internal control over and compliance with the Special Tests and Provisions requirement.

**DCAA Comments:** The DoDIG discussion draft report appears to take exception to the auditor's documented understanding that the controls that exist over compliance with special contract provisions are included as part of the overall controls identified as part of the procurement and subcontract management compliance requirements. We believe some of these same controls cover the special tests and provisions compliance requirement. The FAO's original audit scope included a review of selected contracts and subcontracts for special contract clauses and to verify that monitoring is performed by the contractor to ensure compliance with the contract clauses.

We do agree with the DoDIG that the working papers do not contain sufficient documentation to provide a clear audit trail that the contractor is in compliance with this requirement. Supplemental effort was performed to more specifically identify the internal controls covering the special contract clauses and providing the actual examples of the tests of these controls.



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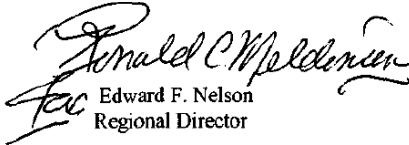
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**Concluding Comments:**

Our independent assessment of the Single Audit concluded that the subject audit was substantively conducted in accordance with GAGAS, the auditing and reporting requirements of OMB Circular A-133, and Agency policy. However, we do agree with the DoDIG identified concerns with certain documentation issues that we will address in future SRC A-133 compliance audits. It should be noted that GAGAS and DCAA policy state that the quantity, type and content of documentation required is a matter of auditor judgment and will depend on the significance and sensitivity of the costs being audited. It is DCAA policy that auditors should not unnecessarily duplicate information contained elsewhere, but should instead reference the file where the data can be found. Transaction testing under other audits is often used in this way for "dual purpose" testing.

Questions regarding this memorandum should be directed to the undersigned.

  
Edward F. Nelson  
Regional Director



# Inspector General Department of Defense