

# Inspector General

United States  
Department of Defense



Oversight Review

March 31, 2008

Report on Quality Control Review  
of Noblis, Incorporated  
FY 2006 Single Audit

Report No. D-2008-6-004

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### **Acronyms**

GAS	Government Auditing Standards
OMB	Office of Management and Budget



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

Audit Committee  
Noblis, Incorporated

Chief Financial Officer  
Noblis, Incorporated

Audit Partner  
Grant Thornton, LLP

SUBJECT: Report on Quality Control Review of Noblis, Incorporated FY 2006 Single Audit  
(Report No. D-2008-6-004)

We are providing this report for your information and use. As the cognizant Federal agency for Noblis, Incorporated, we performed a review of the Grant Thornton, LLP single audit and supporting work papers for the Fiscal Year ended October 1, 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.** Noblis, Inc. (formerly Mitretek Systems, Inc.) is a nonprofit organization that performs research and development and engineering services of a scientific nature, primarily for Federal agencies and state and local governments. Noblis was incorporated on December 11, 1995 under the laws of the State of Delaware and commenced business on January 29, 1996. Noblis, Inc. expended \$114.9 million in Federal awards for the fiscal year ended October 1, 2006 under one Federal program, the Research and Development Cluster. Of the \$114.9 million, \$23.4 million was expended for Department of Defense programs.

**Review Results.** Grant Thornton generally met GAS and OMB Circular A-133 requirements for the FY 2006 single audit of Noblis Inc. However, we identified a deficiency in the review of the Special Tests and Provisions compliance requirement. The auditors identified key personnel as the special provision applicable to Noblis contracts. Although the auditors documented compliance testing for this requirement, they did not document an understanding of internal control over compliance or identify and test internal controls as required by OMB Circular A-133. The audit manager provided our office with a supplemental written explanation which demonstrated their understanding of internal control over compliance with the key personnel requirement, identified key internal controls, and described performed verification procedures. We were able to verify the verification procedures in other single audit working

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papers. OMB Circular A-133 requires the auditor to obtain and document an understanding of internal control over compliance requirements sufficient to plan the audit to support a low assessed level of control risk. The auditor is then required to identify key internal controls and plan and perform tests of those controls in order to plan and perform compliance testing sufficient to support the opinion on Federal programs.

## Recommendation, Management Comments, and IG DoD Response

**Recommendation.** We recommend that the Audit Partner, Grant Thornton, enhance work paper documentation for future single audits. In addition, we request Grant Thornton provide the Inspector General of the Department of Defense with work paper documentation from the FY 2008 audit that demonstrates corrective action has been taken to address the lack of documentation for the Special Tests and Provision compliance requirement.

**Grant Thornton's Comments.** Grant Thornton concurred with our recommendation and provided documentation from the FY 2007 single audit as evidence of corrective actions taken. Management comments are included in its entirety at the end of this report.

**OIG DoD Response.** We reviewed the FY 2007 audit documentation and conclude that the corrective actions taken by Grant Thornton are responsive to our recommendation.

**Other Matters of Interest.** We also identified the following issues that should be addressed for future single audits.

**Federal Program Audit Documentation.** Grant Thornton needs to enhance the documentation for the review of Cash Management, Procurement, Suspension and Debarment, and Reporting in future audits. We had to obtain additional documentation and verbal explanations from the audit manager in order to conclude that there was sufficient evidence to support the audit opinion on these compliance requirements.

Government Auditing Standards 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.

**Audit Coordination.** Grant Thornton should coordinate with the Defense Contract Audit Agency when planning future single audits. During the period covered by the FY 2006 single audit, the Defense Contract Audit Agency issued 10 reports and/or memorandums on floor checks, incurred costs, contract audit closing statement vouchers, forward pricing and provisional billing rates, and cost accounting standards.

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Although no findings were reported that impacted the FY 2006 single audit, coordination of future single audits would help to achieve a more efficient and effective audit.

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 Ms. Felicia Fuller at (703) 604-9641 (DSN 664-9641). See Appendix C for the report distribution.



Carolyn R. Davis  
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 at least \$500,000 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 Governmental Auditing Standards and submit a complete reporting package to the Federal Audit Clearinghouse.

We reviewed the Grant Thornton audit of Noblis, Inc. for FY 2006 and the resulting reporting package that was submitted to the Federal Audit Clearinghouse dated June 25, 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 September 2007 through February 2008. 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 2003, we have issued one quality control review report on OMB Circular A-133 single audits performed by Grant Thornton, LLP. In that report, issued in February 2003 (Report No. D-2003-6-004), we reported that the audit did not meet the requirements of OMB Circular A-133 and GAS that related to the audit of Federal programs because the FY 2001 single audit was not adequately planned, executed, and documented. Copies of IG DoD unrestricted reports can be accessed over the Internet at <http://www.dodig.osd.mil/audits/reports>.

## 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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Director, Defense Procurement and Acquisition Policy

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Assistant Secretary of the Army (Financial Management and Comptroller)  
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Board of Trustees, Noblis, Incorporated  
Chief Financial Officer, Noblis, Incorporated  
Partner, Grant Thornton, LLP

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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

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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

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# Grant Thornton, LLP Comments



March 14, 2008

Ms. Carolyn R. Davis  
Acting Assistant Inspector General for Audit Policy and Oversight  
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Dear Ms. Davis:

Grant Thornton LLP is providing responses to the deficiency and other comments noted in the letter we received from you dated February 28, 2008 with the subject "Report on Review of FY 2006 Audit of Noblis, Inc."

### Deficiency

Your letter noted a deficiency in the review of the Special Tests and Provisions compliance requirements. As noted by you, we identified key personnel as a special provision applicable to certain of Noblis' contracts and performed compliance testing relative to this compliance requirement, however, we did not document an understanding of internal controls over this specific compliance requirement or identify and test the related internal controls as they relate to Special Tests and Provisions as required by OMB Circular A-133. While our audit work papers did not contain documentation of our understanding of the internal controls related to Special Tests and Provisions, we had previously discussed these controls with Noblis management and were able to provide this information to the Inspector General auditor upon her request.

Your letter recommended that we address this deficiency in the FY 2008 single audit. We have, however, addressed it in the FY 2007 single audit since the FY 2007 single audit was not yet completed when we were made aware of this matter. We have attached work papers labeled 1-4 as evidence of addressing the deficiency. Work papers 1 "Activities-Level Systems Documentation" and 2 "Who Performs Report" are documentation of our understanding of the system of internal controls surrounding the Special Tests and Provisions compliance requirement. Workpaper 3 "Key Controls" documents the controls we identified as key controls to be tested. Workpaper 4 "A-133 Special Tests & Provisions – Key Personnel" documents our testing of the internal controls and compliance with Special Tests and Provisions. We believe the deficiency was remediated in the FY 2007 audit.

### Other Matters of Interest

We appreciate the items you noted in the Other Matters of Interest section and will consider these in future audits.

Sincerely,

A handwritten signature in black ink that reads "GRANT THORNTON LLP".

James H. Stanker  
Partner

Grant Thornton LLP  
US member firm of Grant Thornton International Ltd



Inspector General  
Department of Defense

