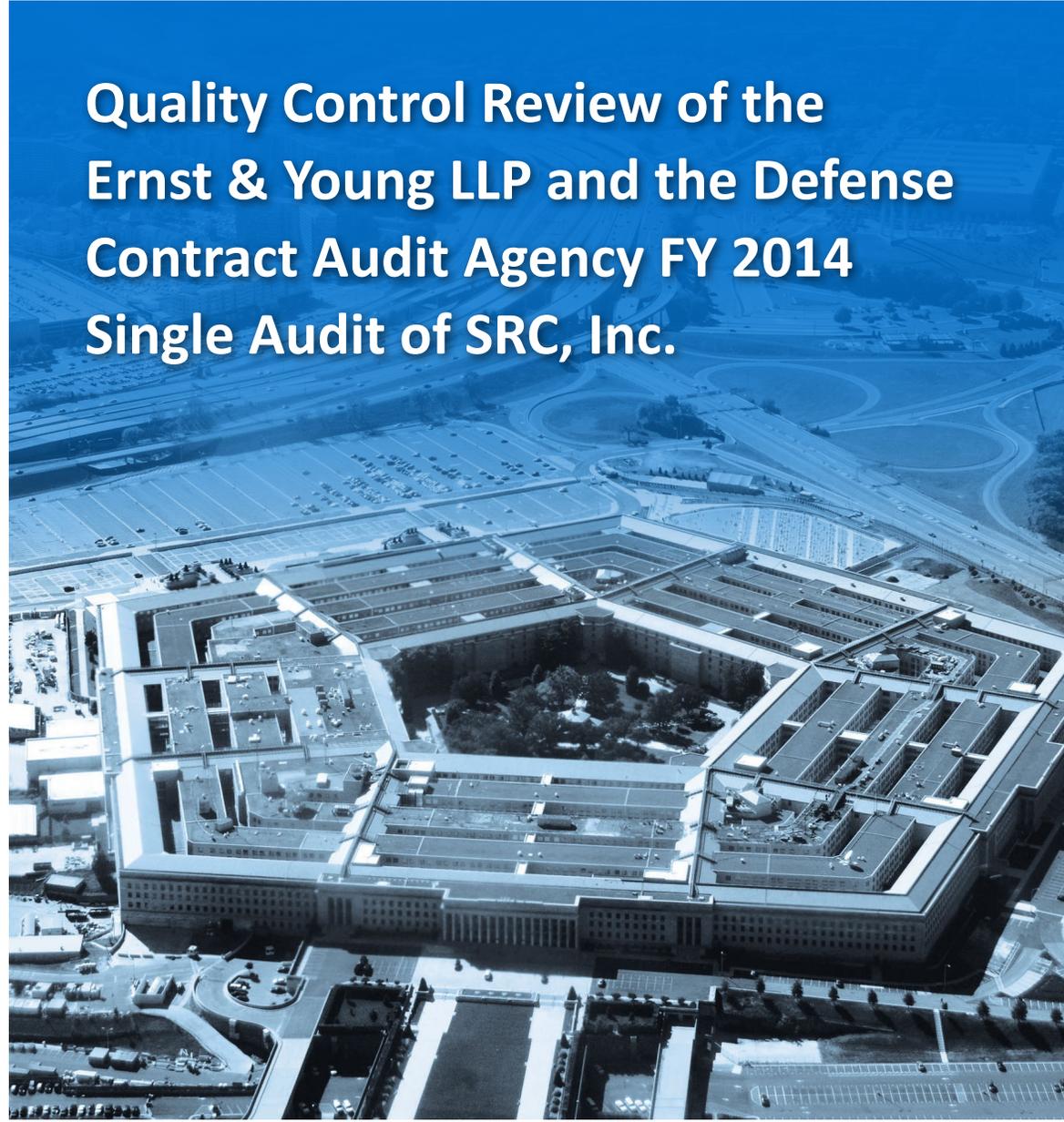




INSPECTOR GENERAL

U.S. Department of Defense

NOVEMBER 14, 2016



Quality Control Review of the Ernst & Young LLP and the Defense Contract Audit Agency FY 2014 Single Audit of SRC, Inc.

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**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500**

November 14, 2016

Director
Defense Contract Audit Agency

Branch Manager
Defense Contract Audit Agency
Upstate New York Branch Office

Audit Partner
Ernst & Young LLP

Board of Trustees
SRC, Inc.

Director of Compliance
SRC, Inc.

SUBJECT: Quality Control Review of the Ernst & Young LLP and the Defense Contract Audit Agency FY 2014 Single Audit of SRC, Inc. (Report No. DODIG-2017-024)

We are providing this report for your information and use. As the cognizant Federal agency for SRC, Inc., we performed a quality control review of the Ernst & Young LLP (E&Y) and the Defense Contract Audit Agency (DCAA) single audit report and supporting audit documentation for the year ended September 30, 2014.

The purpose of our review was to determine whether the single audit was conducted in accordance with auditing standards and the requirements of the Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." We conducted this review in accordance with the "Quality Standards for Inspection and Evaluation," published in January 2012 by the Council of the Inspectors General on Integrity and Efficiency.

E&Y and DCAA complied with the auditing standards and Office of Management and Budget Circular A-133 requirements. We have included a section regarding DCAA's use of the For Official Use Only marking and the availability of single audit reports on the Federal Audit Clearinghouse website.

We appreciate the courtesies extended to our staff. [REDACTED]

A handwritten signature in black ink, appearing to read "R. Stone", with a long horizontal flourish extending to the right.

Randolph R. Stone
Deputy Inspector General
Policy and Oversight

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Introduction and Review Results

Objective

As the cognizant Federal agency¹ for SRC, Inc., we performed a quality control review of the Ernst & Young LLP (E&Y) and the Defense Contract Audit Agency (DCAA) single audit report and supporting audit documentation for the audit period of October 1, 2013, through September 30, 2014. Our objective was to determine whether the single audit was conducted in accordance with generally accepted government auditing standards, generally accepted auditing standards, and the requirements of the Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Appendix A contains additional details on our scope and methodology and identifies prior coverage. Appendix B lists the compliance requirements that E&Y and DCAA determined to be applicable to the audit period ended September 30, 2014.

Background

SRC, Inc.

SRC, Inc. is a not-for-profit organization that provides services mainly to the Federal Government in a wide array of technology areas, including development and production of sensor systems, signal processing, information science and engineering, cyber security, environmental chemistry and risk assessment, and chemical biological defense. During FY 2014, SRC expended \$99 million in Federal funds on one program, the research and development cluster.² Of the \$99 million, SRC expended \$89.6 million on Department of Defense programs. E&Y and DCAA performed a coordinated audit of SRC's FY 2014 single audit.

Ernst & Young LLP

E&Y provides a wide array of business services, including audit and assurance, business and Government consulting, and tax preparation and planning. E&Y maintains its own system of internal quality control over its accounting and auditing practices, as required by the American Institute of Certified Public Accountants. E&Y's office in Syracuse, New York, performed the SRC FY 2014 single audit in coordination with DCAA.

¹ OMB Circular A-133 states that the cognizant agency is the Federal agency that provides the predominant amount of direct funding to a non-Federal entity and is the Federal agency designated to perform quality control reviews.

² The research and development cluster is made up of a variety of research and development activities performed under different types of funding agreements, such as grants, cooperative agreements, and contracts that have similar compliance requirements.

Defense Contract Audit Agency

DCAA operates under the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD. DCAA maintains five regional offices, a field detachment division (for audits involving DoD classified programs), and a headquarters office in order to provide audit and financial advisory services to the DoD and other Federal agencies responsible for acquisition and contract administration. DCAA's Upstate New York Branch Office and a field detachment office performed the SRC FY 2014 single audit in coordination with E&Y.

Single Audit

Public Law 98-502, "The Single Audit Act of 1984," (the Act) as amended, was enacted to promote sound financial management of Federal awards administered by non-Federal entities and to establish a uniform set of auditing and reporting requirements for all Federal award recipients that are required to obtain a single audit. OMB Circular A-133 establishes policies that guide the implementation of the Act and provides an administrative foundation for uniform audit requirements of non-Federal entities administering Federal awards. Entities that expend Federal funds of \$500,000 or more in a year are subject to the Act and OMB Circular A-133 requirements. Therefore, these entities must have an annual single or program-specific audit performed in accordance with generally accepted government auditing standards and submit a complete reporting package to the Federal Audit Clearinghouse.³ The single audit includes an audit of the non-Federal entity's financial statements and Federal awards as described in OMB Circular A-133.

Review Results

SRC complied with OMB Circular A-133 requirements in preparing the schedule of expenditures of Federal awards, the summary schedule of prior audit findings, and the corrective action plan for the FY 2014 single audit. E&Y and DCAA complied with the auditing standards and OMB Circular A-133 requirements in performing the SRC FY 2014 single audit.

³ The Federal Audit Clearinghouse is designated by the OMB as the repository of record for single audit reports and maintains a database of completed audits, provides appropriate information to Federal agencies, and performs follow-up with known auditees which have not submitted the required information.

Matter of Interest: DCAA FOUO Report Marking

DCAA guidance requires that single audit reports contain a “For Official Use Only” (FOUO) marking. DoD Manual 5200.01, Volume 4, “DoD Information Security Program: Controlled Unclassified Information (CUI),” February 24, 2012, establishes the need to apply access and distribution controls and protective measures to prevent public disclosures of FOUO information. FOUO is a protective marking applied to unclassified information when disclosure to the public would reasonably be expected to cause a foreseeable harm to the interest protected by one or more provisions of the Freedom of Information Act.

Single audits that cover a non-Federal entity’s fiscal year beginning on or after December 26, 2014, will be subject to the “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” (Uniform Guidance), Title 2 Code of Federal Regulation Part 200 (2016). This Uniform Guidance requires the Federal Audit Clearinghouse to make the reports covered by the Uniform Guidance available to the public on the Clearinghouse’s website. As a result, a DCAA FOUO-marked report could be accessed on a public website, without restriction.

Appendix A

Scope and Methodology

We conducted our review from April 2016 through September 2016 in accordance with the “Quality Standards for Inspection and Evaluation,” published in January 2012 by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). Those standards require that we plan and perform our review to obtain sufficient appropriate evidence to provide a reasonable basis for our findings, conclusions, and recommendations based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings, conclusions, and recommendations.

We reviewed the FY 2014 single audit of SRC performed by E&Y and DCAA. The Federal Audit Clearinghouse received the single audit report on June 30, 2015. We used the 2015 edition of the CIGIE “Guide for Quality Control Reviews of OMB Circular A-133 Audits.” The review focused on the following qualitative aspects of the single audit:

- Qualification of Auditors,
- Auditor Independence,
- Due Professional Care,
- Planning and Supervision,
- Audit Follow-Up,
- Internal Control and Compliance Testing,
- Schedule of Expenditures of Federal Awards, and
- Data Collection Form.

Use of Computer-Processed Data

We did not use computer-processed data to perform this review.

Prior Coverage

During the last 5 years, the Department of Defense Office of Inspector General (DoD OIG) has performed two quality control reviews related to DCAA OMB Circular A-133 audits. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

- Report No. DODIG-2015-112, “Quality Control Review of the PricewaterhouseCoopers LLP and the Defense Contract Audit Agency FY 2013 Single Audit of The MITRE Corporation,” April 30, 2015
- Report No. DODIG-2013-048, “Quality Control Review of the PricewaterhouseCoopers LLP and the Defense Contract Audit Agency FY 2010 Single Audit of the Institute for Defense Analyses,” February 20, 2013

Appendix B

Compliance Requirements

Table. Compliance Requirements that E&Y and DCAA Determined Were Applicable to the Research and Development Cluster

OMB Circular A-133 Compliance Requirements	Applicable	Not Applicable/ Not Material
Activities Allowed or Unallowed	X	
Allowable Cost/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	

Acronyms and Abbreviations

- CIGIE** Council of the Inspectors General on Integrity and Efficiency
- DCAA** Defense Contract Audit Agency
- E&Y** Ernst & Young LLP
- FOUO** For Official Use Only
- OMB** Office of Management and Budget



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U.S. DEPARTMENT OF DEFENSE

The Whistleblower Protection Ombudsman's role is to educate agency employees about prohibitions on retaliation and employees' rights and remedies available for reprisal. The DoD Hotline Director is the designated ombudsman. For more information, please visit the Whistleblower webpage at www.dodig.mil/programs/whistleblower.

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Alexandria, VA 22350-1500
www.dodig.mil
Defense Hotline 1.800.424.9098

