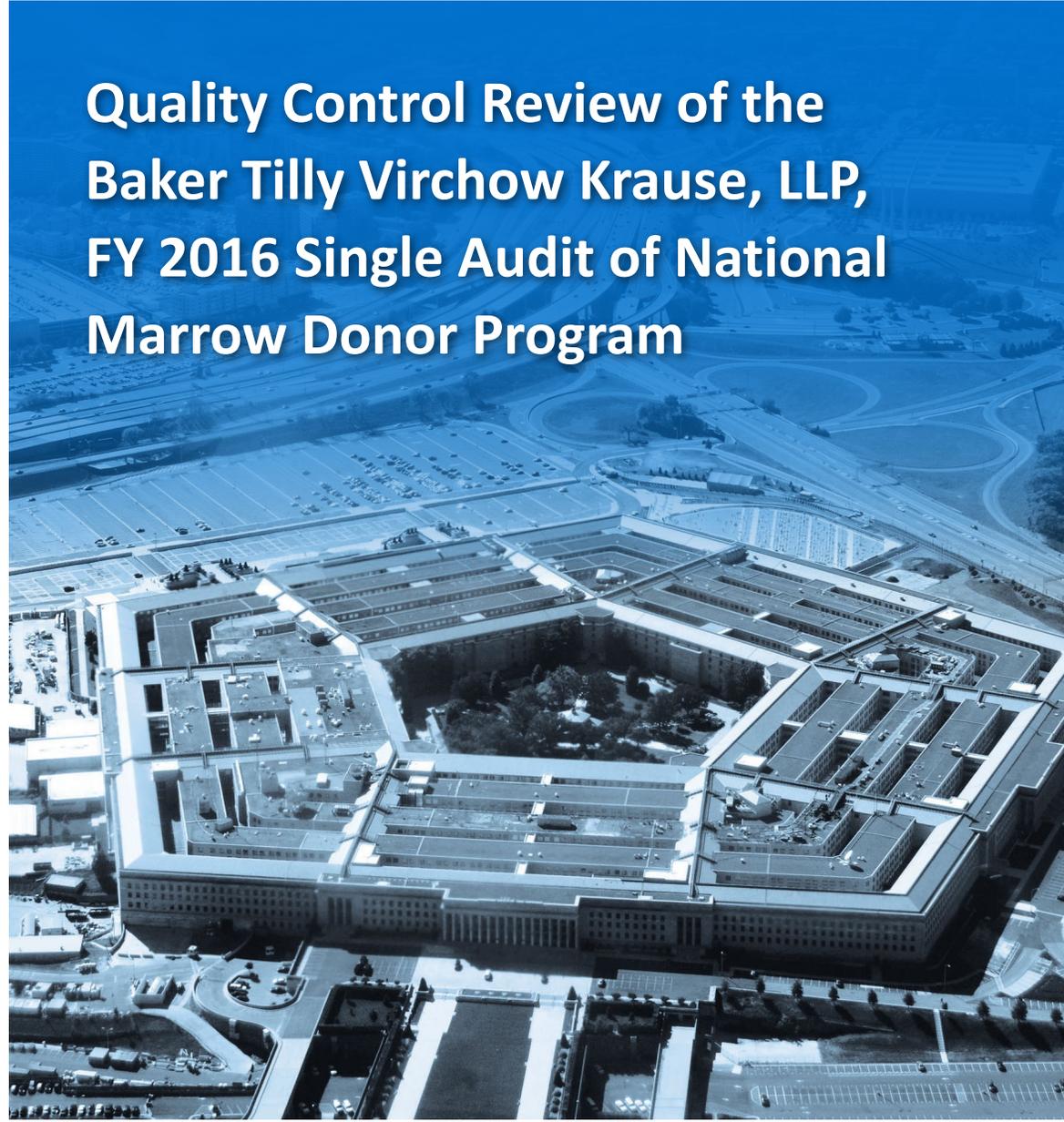




INSPECTOR GENERAL

U.S. Department of Defense

APRIL 4, 2018



Quality Control Review of the Baker Tilly Virchow Krause, LLP, FY 2016 Single Audit of National Marrow Donor Program

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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Results in Brief

Quality Control Review of the Baker Tilly Virchow Krause, LLP, FY 2016 Single Audit of National Marrow Donor Program

April 4, 2018

Objective

We conducted a quality control review of the Baker Tilly Virchow Krause, LLP (Baker Tilly), FY 2016 single audit of National Marrow Donor Program (the Donor Program). Specifically, we determined whether the single audit was conducted in accordance with auditing standards and the requirements of Title 2 Code of Federal Regulations Part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (Uniform Guidance).

Background

Public Law 104-156, "Single Audit Act Amendments of 1996," was enacted to promote sound financial management of Federal awards administered by non-Federal entities and to establish uniform requirements for audits of Federal awards. The Uniform Guidance sets forth the standards for the audit of non-Federal entities expending Federal awards.

Findings

We determined that Baker Tilly did not fully comply with auditing standards and Uniform Guidance requirements. Specifically, the Baker Tilly auditors:

- did not perform sufficient audit procedures, for the FY 2016 single audit, to support conclusions on the Donor Program's compliance with cash management requirements,

Findings (cont'd)

- did not adequately document the audit sampling performed to test compliance with procurement requirements, and
- did not adequately document the audit procedures performed that supported conclusions on the special tests and provisions; allowable costs/ cost principles; procurement, suspension, and debarment; and reporting compliance requirements.

Recommendations

We recommend that, for the FY 2016 audit, the Baker Tilly Partner,

- perform additional audit procedures to determine the Donor Program's compliance with cash management requirements.

In addition, we recommend that, for future audits, the Baker Tilly Partner:

- properly document audit sampling performed, including the population of transactions and sample items reviewed, that is sufficient to support audit conclusions on the Donor Program's compliance with procurement requirements, and
- improve audit documentation for the internal control and compliance testing performed on the special tests and provisions compliance requirement and the compliance testing performed on the allowable costs/cost principles; procurement, suspension, and debarment; and reporting compliance requirements.

Management Comments and Our Response

The Baker Tilly Partner agreed to the recommendations, and no further comments are required. The Baker Tilly Partner agreed that the auditors will perform the additional testing of the Donor Program's requirement to minimize



Results in Brief

Quality Control Review of the Baker Tilly Virchow Krause, LLP, FY 2016 Single Audit of National Marrow Donor Program

Management Comments (cont'd)

the time elapsed between the transfer of funds from the Government and the disbursement of those funds. In addition, the Baker Tilly Partner agreed to include additional information in future single audits to address our findings and recommendations. Specifically, the auditors will identify the population, sample size, and sample items for procurement testing. In addition, the auditors will expand the audit documentation for the internal control and compliance testing of key personnel requirements. Finally, the auditors will improve the audit documentation to ensure that there is a clear connection between the audit program procedures and the testing performed.

The recommendations are resolved but remain open. We will close the recommendations once we perform followup procedures to verify the corrective actions taken fully address our recommendations. Please see the Recommendations Table on the next page.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Baker Tilly Virchow Krause, LLP	None	A.1 and B.1	None

Note: The following categories are used to describe agency management’s comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – OIG verified that the agreed upon corrective actions were implemented.





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

April 4, 2018

Board of Directors
National Marrow Donor Program

Director, Finance and Controller
National Marrow Donor Program

Partner
Baker Tilly Virchow Krause, LLP

SUBJECT: Quality Control Review of the Baker Tilly Virchow Krause, LLP, FY 2016 Single Audit of National Marrow Donor Program (Report No. DODIG-2018-102)

We are providing this report for your information and use. We considered management comments on a draft of this report when preparing the final report. Comments from Baker Tilly Virchow Krause, LLP, addressed all specifics of the findings and recommendations; therefore, we do not require additional comments.

We conducted this quality control 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.

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

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

Randolph R. Stone
Deputy Inspector General
Policy and Oversight

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Introduction

Objective

As the oversight Federal agency for the National Marrow Donor Program (the Donor Program), we performed a quality control review of the Baker Tilly Virchow Krause, LLP (Baker Tilly), single audit report and supporting audit documentation for the audit period of October 1, 2015, through September 30, 2016.¹ Our objective was to determine whether the single audit was conducted in accordance with auditing standards and the requirements of Title 2 Code of Federal Regulations Part 200, “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” (Uniform Guidance).² Appendix A contains additional details on our scope and methodology. Appendix B lists the compliance requirements that Baker Tilly determined to be direct and material to the audit period ended September 30, 2016.

Background

National Marrow Donor Program

The Donor Program is the global leader in providing marrow and umbilical cord blood transplants to patients with life-threatening blood cancers like leukemia and lymphoma or other diseases. It matches patients with donors, educates health care professionals, and conducts research. The Donor Program also operates Be The Match Foundation, which provides support for patients and enlists others in the community to join the Be The Match Registry, the world’s largest listing of potential marrow donors and donated cord blood units. During FY 2016, the Donor Program expended \$42 million in Federal funds including \$24 million on one major program, the research and development cluster.³ Of the \$24 million, \$18 million was expended on Department of Defense awards. The Donor Program engaged Baker Tilly to perform the FY 2016 single audit.

¹ Title 2 Code of Federal Regulations Part 200 states that the oversight 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. The Department of Defense provided the predominant amount of direct funding to the Donor Program; therefore, DoD is the oversight Federal agency.

² Auditing standards include both Government Auditing Standards and the American Institute for Certified Public Accountants’ audit standards.

³ 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.

Baker Tilly Virchow Krause, LLP

Baker Tilly is an accounting and advisory firm that offers specialized services in audit, tax, and management consulting. Baker Tilly performed the Donor Program's FY 2016 single audit. Baker Tilly maintains its own system of internal quality control over its accounting and auditing practices as required by the American Institute of Certified Public Accountants.

Single Audit

Public Law 104-156, "Single Audit Act Amendments of 1996," (the Act) was enacted to promote sound financial management of Federal awards administered by non-Federal entities and to establish uniform requirements for audits of Federal awards. The Uniform Guidance sets forth the standards for obtaining consistency among Federal agencies for the audit of non-Federal entities expending Federal awards. Entities that expend Federal funds of \$750,000 or more in a year are subject to the Act and the Uniform Guidance 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.⁴ The single audit includes an audit of the non-Federal entity's financial statements and Federal awards as described in the Uniform Guidance.

Review Results

Baker Tilly did not fully comply with auditing standards and Uniform Guidance requirements when performing the FY 2016 single audit. Specifically, the auditors did not perform sufficient audit procedures to verify the Donor Program's compliance with the cash management compliance requirement (Finding A). As a result, Baker Tilly needs to complete additional audit work to support its conclusions and the overall opinion on compliance with requirements for the research and development cluster. In addition, we identified deficiencies in the audit documentation that need to be corrected in future single audits (Finding B).

⁴ The Federal Audit Clearinghouse is designated by the Office of Management and Budget 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 auditees that have not submitted the required information.

Finding A

Audit Procedures Performed for Cash Management

Baker Tilly auditors did not perform sufficient audit procedures to support conclusions on the Donor Program's compliance with cash management requirements. Baker Tilly auditors identified the cash management compliance requirement as direct and material to the research and development cluster. However, the audit procedures documented did not achieve the audit objective for the requirement because Baker Tilly auditors did not verify that the Donor Program minimized the time between the transfer of funds from the Government and the disbursement of those funds. As a result, the audit documentation did not provide sufficient appropriate evidence to support audit conclusions on the cash management requirement.

Compliance Testing

Baker Tilly's documented audit procedures for testing the cash management compliance requirement did not adequately address the audit objective identified in the 2016 Office of Management and Budget (OMB) Compliance Supplement.⁵ Baker Tilly documented that the Donor Program receives cash advances on two Navy awards, which represent 76 percent of the total research and development cluster. Under the advance payment method, the OMB Compliance Supplement states that the auditors should perform procedures to determine whether payment methods minimized the time elapsing between the transfer of funds from the Government and their disbursement by the non-Federal entity. Baker Tilly documented that it verified proper approval of the requests for cash advances and reconciled cash advance amounts to bank statement deposits. However, the audit documentation did not include evidence that the auditors verified that the Donor Program minimized the time between the transfer of funds and the disbursement of those funds.

We asked Baker Tilly for additional information regarding the testing performed on cash advances. Baker Tilly provided information documenting a comparison of revenue recognized to cash receipts and concluded the Donor Program had minimum funds remaining at the end of the year. The additional information provided was not sufficient to conclude on cash management requirements because it did not include evidence that the Donor Program was minimizing the time elapsed between each transfer of funds and the disbursement of funds.

⁵ The Office of Management and Budget Compliance Supplement provides guidance to assist auditors in determining compliance requirements relevant to the audit, audit objectives, and suggested audit procedures. The Supplement, Part 3, identifies the specific audit objectives for each compliance requirement. Auditors are required to use the Supplement when performing single audits.

Federal requirements state that advance payments to a non-Federal entity be limited to the minimum amount needed and be timed to be in accordance with the actual, immediate cash requirements of the non-Federal entity in carrying out the purpose of the approved program or project. Federal requirements also state that the timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the non-Federal entity. We noted that the audit documentation included information indicating that the Donor Program was requesting advances for funds to be used for the 3 months following the request. This does not appear to meet Federal payment requirements.

Based on our review, we concluded that the auditors did not obtain sufficient evidence to support that the Donor Program was minimizing the time elapsed between the transfer of funds and the disbursement of funds. Baker Tilly auditors must perform additional audit procedures to support conclusions on this requirement and the overall opinion on the Donor Program's compliance with requirements direct and material to the research and development cluster.

Recommendation, Management Comment, and Our Response

Recommendation A.1

We recommend that the Partner, Baker Tilly Virchow Krause, LLP:

- a. Perform audit procedures for the FY 2016 single audit, at no additional cost to the Government, to determine the National Marrow Donor Program's compliance with cash management requirements to minimize the time elapsed between the transfer of funds and the disbursement of funds.**
- b. Revise the single audit report, as required by auditing standards, to reflect the additional audit work performed and coordinate with the National Marrow Donor Program to submit the revised reporting package to the Federal Audit Clearinghouse.**
- c. Provide the Department of Defense Office of Inspector General with the audit documentation on the FY 2016 single audit that demonstrates the corrective actions taken to address the reported deficiencies on the cash management compliance requirement.**

Baker Tilly Virchow Krause, LLP, Comments

The Baker Tilly Partner agreed with the recommendation and stated that Baker Tilly will perform the additional testing of the Donor Program's requirement to minimize the time elapsed between the transfer of funds from the Government and disbursement of funds by the Donor Program. In addition, the Baker Tilly

Partner agreed to consider professional responsibilities as required by auditing standards for any necessary report revisions related to the additional audit work. As part of the comments, the Baker Tilly Partner also identified the procedures Baker Tilly had performed during the audit and explained that the audit approach placed significant emphasis on testing the Donor Program's forecasting calculations to satisfy the compliance with the cash management requirement. The Baker Tilly Partner anticipates that Baker Tilly will complete the additional audit procedures by May 15, 2018, and will provide the DoD OIG copies of the additional audit documentation.

Our Response

Comments from the Baker Tilly Partner addressed all specifics of the recommendation. We agree that the audit documentation included evidence of the testing that Baker Tilly identified in its comments. However, we determined that those procedures were not sufficient to support conclusions on the cash management requirement and that the additional procedures Baker Tilly has agreed to perform are necessary. The recommendation is resolved but remains open. We will close this recommendation once we perform a followup review of the additional procedures Baker Tilly performs to verify that the Donor Program complied with the cash management requirements to minimize the time elapsed between the transfer of funds from the Government and disbursement of those funds.

Finding B

Federal Program Audit Documentation

Baker Tilly auditors did not comply with auditing standards related to required audit documentation. Baker Tilly auditors did not always provide a clear description of the audit procedures performed and evidence obtained to support conclusions on the review of compliance requirements. Specifically, Baker Tilly auditors did not properly document the audit sampling performed to support conclusions on procurement requirements. In addition, Baker Tilly auditors did not adequately document the audit procedures performed for their review of special tests and provisions; allowable costs/cost principles (allowable costs); procurement, suspension, and debarment; and reporting requirements. As a result, additional information and explanations were required for us to conclude that Baker Tilly obtained sufficient evidence to support audit conclusions

Adequacy of Audit Documentation

Baker Tilly auditors did not adequately document the audit procedures performed or the evidence obtained to support their conclusions on the review of several compliance requirements. Auditing standards require that audit documentation be appropriately detailed to provide a clear understanding of the work performed, the evidence obtained, and the conclusions reached. The documentation and audit evidence should be in sufficient detail to enable an experienced auditor with no previous connections to the audit to understand the nature, timing, extent, and results of audit procedures performed that support the significant judgements and conclusions.

Baker Tilly auditors used audit sampling for compliance testing of procurement requirements but did not properly identify the population of transactions or adequately document the sample items reviewed. In addition, Baker Tilly auditors did not adequately document their understanding of internal controls or the testing of internal controls and compliance with the special tests and provisions requirement. Finally, Baker Tilly auditors did not adequately document the compliance testing performed that supported their conclusions on the allowable costs; procurement, suspension, and debarment; and reporting requirements.

Audit Sampling for Compliance Testing of Procurements

Baker Tilly did not properly define the population of transactions or adequately document the sample items it reviewed to test the Donor Program's compliance with procurement requirements. The American Institute of Certified Public Accountants Audit Guide, "Government Auditing Standards and Single Audits," April 1, 2016, (the Audit Guide) provides guidance on audit sampling in chapter 11. The Audit Guide states that the population must be defined in a manner consistent with the audit objective and internal control and compliance attributes to be tested. The 2016 OMB Compliance Supplement states that the audit objective for the procurement requirement is to determine whether the non-Federal entity's procurements under Federal awards were made in compliance with applicable Federal regulations and other procurement requirements specific to the award.

Baker Tilly auditors documented that they selected sample items for review from a population of other direct cost transactions. The selected sample items were used to test multiple compliance requirements, including activities allowed or unallowed,⁶ allowable costs,⁷ period of performance,⁸ and procurement. We noted that the population of other direct cost transactions and the selected sample items included multiple types of expenses. For example, the population and sample items included travel and overnight delivery costs among other expenses, which are not subject to Federal procurement requirements. Consequently, numerous sample items could not be tested for the compliance attributes related to the procurement audit objective. In addition, the audit documentation did not identify the population of procurement transactions or the specific sample items tested that were relevant to procurement requirements. As a result, it was unclear if the audit procedures performed provided sufficient evidence to support conclusions on procurement requirements. To provide a clear understanding of the audit work performed when using audit sampling, the auditors should have documented the population of transactions, sample size, and selected sample items that were relevant to procurement requirements. This information is essential to ensure that the tests completed were sufficient to support the auditors' significant judgments and conclusions on procurement requirements.

We asked Baker Tilly auditors for additional information on the population of procurement items and the testing performed. In response to our inquiries, Baker Tilly provided additional documentation on the Donor Program's

⁶ The audit objective for the activities allowed or unallowed compliance requirement is to determine whether Federal awards were expended only for allowable activities.

⁷ The audit objective for the allowable costs compliance requirement is to determine whether the non-Federal entity complied with Federal regulations when charging costs to Federal awards.

⁸ The audit objective for the period of performance compliance requirement is to determine whether the Federal award was charged only for allowable costs incurred during the period of performance or for costs incurred prior to the date of the award when authorized by the Federal awarding agency.

procurement actions and additional explanations on the sample items tested. Based on our review of the additional documentation and explanations provided, we accepted there was sufficient evidence to support the audit conclusions on procurement requirements. Nevertheless, for future single audits, Baker Tilly must improve audit documentation on the audit sampling performed so that it is sufficient to support conclusions on procurement requirements.

Special Tests and Provisions Compliance Requirement

The specific requirements for special tests and provision are unique to each Federal program and are found in the laws, regulations, and provision of contracts and grant agreements. Baker Tilly auditors identified key personnel requirements as a special test and provision that was direct and material to the research and development cluster. However, the auditors did not adequately document their understanding of internal controls or the testing of internal controls and compliance with key personnel requirements.

We noted that the audit documentation contained only limited information regarding the Donor Program's internal controls and did not identify the key internal controls that the auditors planned to test. Further, the auditors referenced audit documentation where the testing of internal controls and compliance was accomplished, but the referenced documentation did not provide a clear description of the testing performed related to key personnel requirements. As a result, we had to obtain additional explanations from Baker Tilly to enable us to determine whether the audit procedures completed were sufficient to support conclusions on the Donor Program's compliance with the key personnel requirements.

Based on our review of the audit documentation and additional explanations provided by Baker Tilly auditors, we accepted that Baker Tilly obtained sufficient evidence to support its conclusions. For future audits, Baker Tilly must improve its audit documentation to provide a clear description of the audit procedures performed that support that the Donor Program's internal controls were operating effectively and that the Donor Program was complying with key personnel requirements.

Documentation of Compliance Testing

The Baker Tilly auditors did not adequately document the audit procedures performed to test compliance with the allowable costs; procurement, suspension and debarment; and reporting requirements. The auditors identified, on their combined internal control and compliance work program, specific compliance testing that the auditors planned to perform and referenced the audit documentation that supported the actual testing performed. However,

the referenced audit documentation did not provide a clear description of the compliance testing performed that was adequate to support the planned testing. For example, the auditors identified in the work program multiple compliance attributes, such as costs conformed with Uniform Guidance requirements and costs were accounted for in a consistent manner, to be tested for the allowable costs compliance requirement. However, the supporting audit documentation did not clearly describe the testing performed for the attributes identified in the work program. As a result, it was unclear if the auditors tested all or only some of the attributes that they planned to test.

We had to request additional explanations to ensure that the testing performed was sufficient to support audit conclusions on the Donor Program's compliance with requirements. Based on our review of the additional explanations provided, we accepted there was sufficient evidence to support the audit conclusions. For future audits, Baker Tilly must clearly document the compliance testing performed that supports conclusions on the allowable costs; procurement, suspension and debarment; and reporting compliance requirements.

Recommendation, Management Comment, and Our Response

Recommendation B.1

We recommend that, for future audits, the Partner, Baker Tilly Virchow Krause, LLP:

- a. Identify the population of transactions, sample size, and sample items selected that is relevant to the audit objective and sufficient to support conclusions on procurement requirements.**
- b. Improve audit documentation to provide a clear description of the audit procedures performed and evidence obtained that supports conclusions on the special tests and provisions compliance requirement.**
- c. Improve audit documentation for compliance testing so that the documentation provides sufficient details to describe the work performed and the evidence obtained to support conclusions on the allowable costs/cost principles; procurement, suspension and debarment; and reporting requirements.**

Baker Tilly Virchow Krause, LLP, Comments

The Baker Tilly Partner agreed with the recommendation and stated that Baker Tilly would incorporate additional information in future single audits of the Donor Program. Specifically, the auditors will identify the population, sample size, and sample items tested for the Federal award expenses that are subject to the procurement standards. In addition, the auditors will expand the documentation

on the approach they use to test the Donor Program's internal controls over the key personnel requirements and their compliance with those requirements. Finally, the auditors will improve their audit documentation to ensure that there is a clear connection between the audit program procedures and the testing performed.

Our Response

Comments from the Baker Tilly Partner addressed all the specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close this recommendation once we perform followup procedures on a future Baker Tilly audit to verify that the corrective actions taken to improve audit documentation fully address the recommendation.

Appendix A

Scope and Methodology

We conducted our quality control review from August 2017 through February 2018 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 adequately plan the review to ensure that objectives are met and that we perform the review to obtain sufficient, competent, and relevant evidence to support the findings, conclusions, and recommendations. We believe that the evidence obtained was sufficient, competent, and relevant to lead a reasonable person to sustain the findings, conclusions, and recommendations.

We reviewed the FY 2016 single audit of the Donor Program performed by Baker Tilly. The Federal Audit Clearinghouse received the single audit report on January 30, 2017. We used the 2016 edition of the CIGIE “Guide for Quality Control Reviews of Single 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 audit evaluation.

Prior Coverage

During the last 5 years, the Department of Defense Office of Inspector General has not conducted a quality control review on Baker Tilly or the Donor Program’s single audits.

Appendix B

Compliance Requirements

Table. Compliance Requirements that Baker Tilly Determined Were Direct and Material to the Research and Development Cluster

Uniform Guidance Compliance Requirements	Direct and Material	Not Direct and Material
Activities Allowed or Unallowed	X	
Allowable Costs/Cost Principles	X	
Cash Management	X	
Eligibility		X
Equipment and Real Property Management		X
Matching, Level of Effort, Earmarking		X
Period of Performance	X	
Procurement, Suspension, and Debarment	X	
Program Income		X
Reporting	X	
Subrecipient Monitoring		X
Special Tests and Provisions	X	

Management Comments

Baker Tilly Virchow Krause, LLP



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March 9, 2018

Randolph R. Stone
Deputy Inspector General
Policy and Oversight

Inspector General
Department of Defense
4800 Mark Center Drive
Alexandria, Virginia 22350

Subject: Quality Control Review of the Baker Tilly Virchow Krause, LLP FY 2016 Single Audit of National Marrow Donor Program (Project No. D2017-DAPOSA-0175.000)

Dear Mr. Stone:

Thank you for providing a draft of the proposed report "Quality Control Review of the Baker Tilly Virchow Krause, LLP FY 2016 Single Audit of National Marrow Donor Program" (the "Draft Report"). We respect the quality control review process, and we appreciate the opportunity to respond and provide additional information on the potential findings noted in the Draft Report.

The Department of Defense Office of the Inspector General ("OIG") noted two findings in the Draft Report. Finding A relates to the sufficiency of the testing of the National Marrow Donor Program's ("the Donor Program") compliance with the cash management requirements of the research and development ("R&D") cluster. The OIG recommends that Baker Tilly perform additional procedures, revise reports as may be required by the auditing standards, and provide to the OIG documentation of the additional procedures performed.

The procedures performed by Baker Tilly to test compliance with the cash management requirements of the R&D cluster advances are identified in the Appendix to this letter. As the OIG recommends, Baker Tilly will perform additional cash management testing of the Donor Program's requirement to minimize the time elapsed between transfer of funds from the federal government and disbursement of funds by the Donor Program. We plan to add documentation to our audit file that identifies the annual activity detail of advance receipts and expense payments to show a rolling balance of available advanced funds throughout the year. We will test and analyze this information to determine whether or not the Donor Program minimized the time elapsed between transfer and disbursement of funds. We will also consider our professional responsibilities under the audit standards established in AU-C 560, AU-C 585, and AU-C 935. We anticipate that our additional procedures will be completed by May 15, 2018. We will provide the OIG copies of the additional documentation that we add to our file.

The Draft Report also contains Finding B relating to audit documentation. The OIG recommends that the items noted in this finding be addressed in future audits. Baker Tilly has reviewed the items noted in Finding B and we appreciate the recommendations to improve audit documentation. We will incorporate these suggestions into our future audits, as applicable, of the Donor Program. We agree with your statement in Finding B that there was sufficient evidence to support the audit conclusions for these compliance requirements.



Baker Tilly Virchow Krause, LLP (cont'd)

Thank you for your consideration of our response to the Draft Report. We would be pleased to discuss this with you at your convenience. Please call Nicki Donlon at 612-876-4675 to arrange a mutually convenient time. We would also like to thank your review team for the professional and respectful process they demonstrated during the course of this review.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP



Baker Tilly Virchow Krause, LLP (cont'd)

APPENDIX

Finding A – Audit Procedures Performed for Cash Management

Baker Tilly provided the OIG with audit documentation related to our testing of the cash management requirements of the R&D program. Our understanding of the audit procedures for advanced payments, as identified in the OMB compliance supplement for cash management, includes determining whether the Donor Program minimized the time elapsed between the transfer of funds from the federal agency and disbursement of funds by the Donor Program. Baker Tilly tested advance payments as follows:

- We observed monthly management meeting agendas and cash forecasting summaries.
- We noted seven draws during fiscal 2016, ranging in frequency from four weeks to ten weeks.
- We selected three months and tested management's completion and approval of these forecasts without exception.
- We selected three draws and noted that the draw request was approved and the amount requested agreed to the bank statement.
- We observed that there was no significant unearned revenue relating to the grant as of the beginning and end of the fiscal year.
- We observed that less than \$500 was earned in interest on the advanced funds during fiscal 2016.

In response to additional OIG inquiries, we also:

- Calculated the amount of unearned revenue as of September 30, 2016 and noted it to be approximately 11 days of average Donor Program expenses.

We note that the compliance supplement's suggested audit procedures include selecting a sample of advance payments to verify that the non-Federal entity minimized the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the non-Federal entity. The compliance supplement or federal regulations do not define a timeframe for "minimizing the time". Our approach placed significant emphasis on testing management's forecasting calculations to satisfy the compliance requirement of minimizing the time between the receipt of the advance and payment of the expenses.

Finding B – Audit Sampling for Compliance Testing of Procurements

We agree with the OIG comment. In future audits of the Donor Program, we plan to more clearly identify the population, sample size, and selected sample items of the federal award expenses that are subject to the procurement standards. As noted in the OIG comment, our FY 2016 audit documentation and sample size supported our conclusions on procurement.

Finding B – Special Tests and Provisions Compliance Requirement

We agree with the OIG comment. In future audits of the Donor Program, we plan to expand the documentation of our approach to testing of the Donor Program's internal controls over the key personnel requirements and their compliance with those requirements. Our procedures documented in the FY 2016 single audit noted that the Donor Program's staff was aware of the key personnel requirements, including communication with the federal awarding agencies when there are any changes in key personnel assigned to their various grants. We noted that for the Navy grant, there was only a small number of key personnel and the individuals were in management level positions and easily identified. We observed that there were no changes to key personnel during FY 2016. In addition, for another R&D award, we obtained documentation of the Donor Program's communication to a funding agency related to a change in a key personnel. As noted in the OIG comment, we obtained sufficient evidence to support our conclusions.

Finding B – Documentation of Compliance Testing

We agree that the specific choice of wording and linkage between our audit work program procedures and documentation of our testing could be improved in future audits for the Donor Program. As noted by the OIG, there was sufficient evidence to support the audit conclusions.

Acronyms and Abbreviations

CIGIE Council of the Inspectors General on Integrity and Efficiency

OMB Office of Management and Budget

Whistleblower Protection

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/Components/Administrative-Investigations/DoD-Hotline/.

For more information about DoD OIG reports or activities, please contact us:

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