



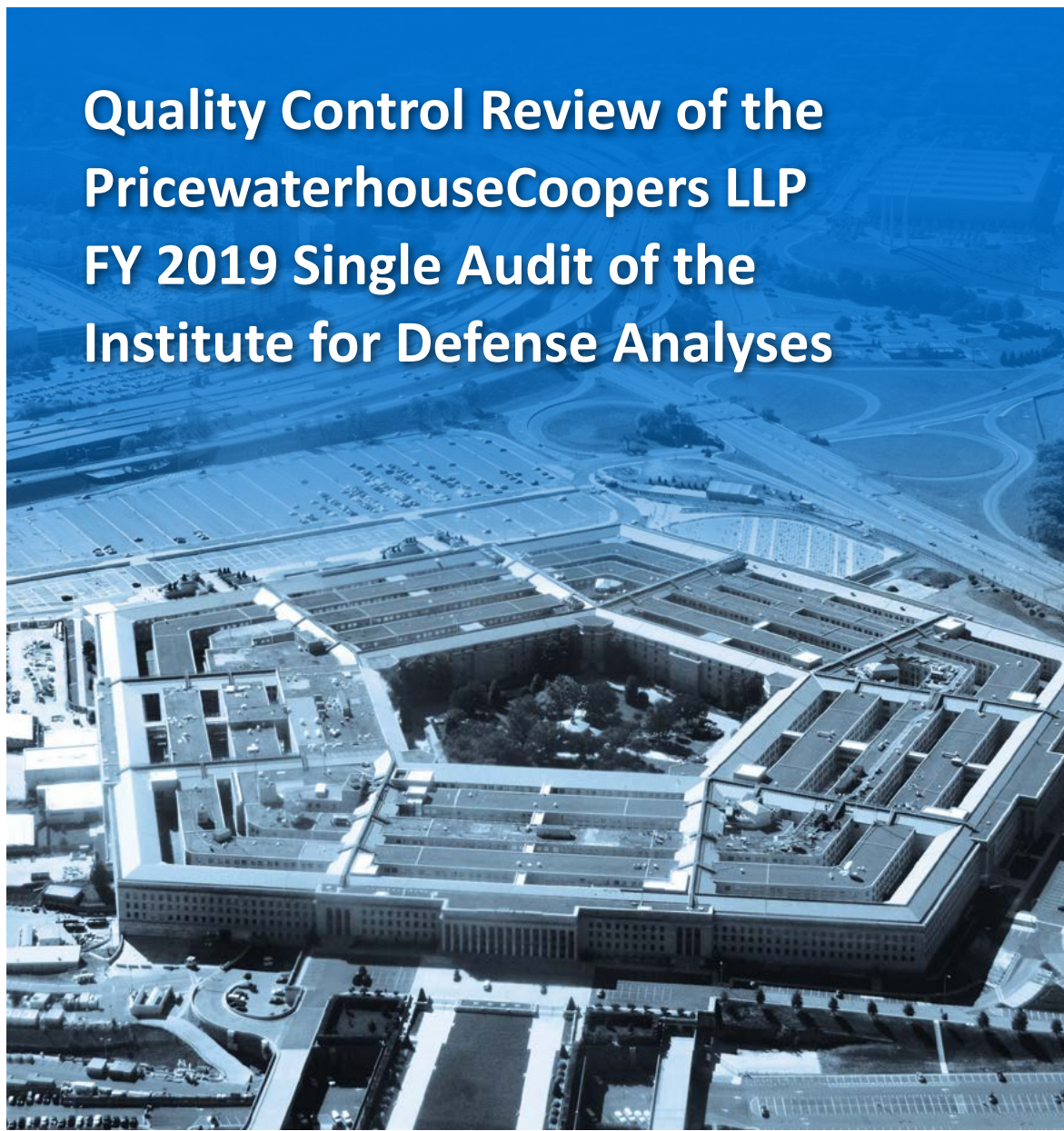
INSPECTOR GENERAL

U.S. Department of Defense

MAY 21, 2021



Quality Control Review of the PricewaterhouseCoopers LLP FY 2019 Single Audit of the Institute for Defense Analyses



INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





Results in Brief

Quality Control Review of the PricewaterhouseCoopers LLP FY 2019 Single Audit of the Institute for Defense Analyses

May 21, 2021

Objective

The objective of this quality control review was to determine whether PricewaterhouseCoopers LLP (PwC) performed the FY 2019 single audit of the Institute for Defense Analyses (the Institute) in accordance with generally accepted government auditing standards and Federal requirements for single audits.

Background

Non-Federal entities that expend Federal funds of \$750,000 or more in a year are subject to Public Law 104-156, "Single Audit Act Amendments of 1996," (the Single Audit Act) and Title 2 Code of Federal Regulations (CFR) part 200 (the Uniform Guidance) requirements. The Single Audit Act was enacted to promote sound financial management of Federal awards administered by non-Federal entities and to establish

Background (cont'd)

uniform requirements for audits of Federal awards. The Uniform Guidance establishes the standards for obtaining consistency and uniformity among Federal agencies for the audit of non-Federal entities expending Federal awards.

The Institute is a nonprofit corporation, headquartered in Alexandria, Virginia, that operates three federally funded research and development centers. During FY 2019, the Institute spent \$255.9 million in Federal awards on one major program, the Research and Development Cluster. Of the \$255.9 million, the Institute spent \$246.7 million on DoD programs within the Research and Development Cluster. The Institute engaged PwC to perform the Institute's FY 2019 single audit.

Review Results

PwC complied with generally accepted government auditing standards and Uniform Guidance requirements when it performed the FY 2019 single audit of the Institute.





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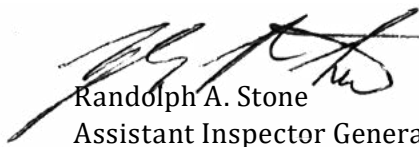
May 21, 2021

Partner
PricewaterhouseCoopers LLP

SUBJECT: Quality Control Review of the PricewaterhouseCoopers LLP FY 2019 Single Audit
of the Institute for Defense Analyses (Report No. DODIG-2021-087)

This final report provides the results of the DoD Office of Inspector General's quality control review. We shared a discussion draft of this report with PricewaterhouseCoopers LLP representatives, who responded with no comments. We did not make any recommendations; therefore, no additional comments are required.

We appreciate the cooperation and assistance we received during the review. If you have any questions, please contact [REDACTED]


Randolph A. Stone
Assistant Inspector General for Evaluations
Space, Intelligence, Engineering, and Oversight

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Introduction

Objective

The objective of this quality control review was to determine whether PricewaterhouseCoopers LLP (PwC) performed the FY 2019 single audit of the Institute for Defense Analyses (the Institute) in accordance with generally accepted government auditing standards and Federal requirements for single audits.¹ Appendix A contains our scope and methodology. Appendix B lists the compliance requirements that PwC identified as direct and material to the Institute's fiscal year ended September 27, 2019.

Background

Non-Federal entities that expend Federal funds of \$750,000 or more in a year are subject to Public Law 104-156, "Single Audit Act Amendments of 1996," (the Single Audit Act) and Title 2 Code of Federal Regulations (CFR) part 200 (the Uniform Guidance) requirements. The Single Audit 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 establishes the standards for obtaining consistency and uniformity among Federal agencies for the audit of non-Federal entities expending Federal awards.² The audit requirements in the Uniform Guidance became effective for non-Federal entity fiscal years beginning on or after December 26, 2014.³

In accordance with the Uniform Guidance, non-Federal entities must have an annual single or program-specific audit performed in accordance with generally accepted government auditing standards. Non-Federal entities must also 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. The auditors performing the single audit determine whether the financial

¹ Government Accountability Office's "Government Auditing Standards" incorporates the American Institute for Certified Public Accountants' "Codification of Statements on Auditing Standards." Federal requirements for single audits are established in Title 2 Code of Federal Regulations, part 200, subpart F, "Audit Requirements."

² Office of Management and Budget, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," commonly referred to as the Uniform Guidance, implemented in 2 CFR part 200 (2019).

³ The effective date for the Uniform Guidance audit requirements is identified in 2 CFR, section 200.110(b).

⁴ The reporting package includes the auditor's reports, the financial statements, the schedule of expenditures of Federal awards, the summary schedule of prior audit findings, and a corrective action plan, as required by 2 CFR 200.512(c). 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 followup with auditees that have not submitted the required information, as identified in 2 CFR 200.512(g).

statements are fairly presented in all material respects in accordance with generally accepted accounting principles. In addition, the auditors perform procedures on the non-Federal entity's internal controls over Federal programs. Also, the auditors determine whether the non-Federal entity complied with Federal statutes, regulations, and the terms and conditions of Federal awards that may have a direct and material effect on its major programs. The Single Audit Act and Uniform Guidance require Federal agencies to assess the quality of single audits. Our review of the Institute's FY 2019 single audit satisfies this requirement.

Institute for Defense Analyses Operates Federally Funded Research and Development Centers That Support Government Agencies

The Institute is a nonprofit corporation, headquartered in Alexandria, Virginia, that operates three federally funded research and development centers: the System and Analyses Center, the Center for Communications and Computing, and the Science and Technology Policy Institute.⁵ The System and Analyses Center, sponsored by the Office of the Secretary of Defense, provides scientific, technical, and analytical expertise to U.S. security and science policy questions. The Center for Communications and Computing, sponsored by the National Security Agency, focuses on the development of innovative technology solutions to complicated mathematical and computational problems in cryptology. The Science and Technology Policy Institute, sponsored by the National Science Foundation, supports policymakers with analyses on matters of scientific and technological importance to the Government. During FY 2019, the Institute spent \$255.9 million in Federal awards on one major program, the Research and Development Cluster.⁶ Of the \$255.9 million, the Institute spent \$246.7 million on DoD programs within the Research and Development Cluster. The Institute engaged PwC to perform the Institute's FY 2019 single audit.

⁵ A federally funded research and development center consists of activities that are sponsored under a broad charter by a Government agency (or agencies) for the purpose of performing, analyzing, integrating, supporting, and managing basic or applied research and development, and that receives 70 percent or more of its financial support from the Government.

⁶ The Research and Development Cluster consists 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 requirements.

PwC Performed the Single Audit

PwC is a member firm of PricewaterhouseCoopers International Limited and provides audit and assurance, consulting, and tax preparation and planning to a wide range of publicly traded and privately held companies. As required by generally accepted government auditing standards, PwC is responsible for establishing and maintaining a system of quality control that is designed to provide reasonable assurance that the audit organization and its staff comply with professional standards and legal and regulatory requirements. PwC must also obtain an external peer review of its system of quality control at least once every three years.⁷ The most recently published external peer review report concluded that PwC had suitably designed and complied with its system of quality control for the accounting and auditing practice.⁸ The PwC office in McLean, Virginia, performed the Institute's FY 2019 single audit.

Review Results

We determined that PwC complied with generally accepted government auditing standards and Uniform Guidance requirements when it performed the FY 2019 single audit of the Institute. We used the Council of the Inspectors General on Integrity and Efficiency (CIGIE) "Guide for Quality Control Reviews of Single Audits" to complete our review. The CIGIE Guide identifies audit procedures that auditors must perform and document during the single audit to meet generally accepted government auditing standards and Uniform Guidance requirements. We reviewed the PwC audit documentation, analyzed the nature and extent of the PwC audit procedures, and verified that PwC obtained sufficient evidence to support its conclusions and audit report opinion.

⁷ Government Auditing Standards section 3.82, "Quality Control and Assurance," December 2011.

⁸ Report of the Firm's System of Quality Control, dated November 20, 2018, completed by Grant Thornton LLP.

Appendix A

Scope and Methodology

We conducted our quality control review from October 2020 through May 2021 in accordance with the CIGIE, “Quality Standards for Inspection and Evaluation,” published in January 2012. The CIGIE standards require that we adequately plan the quality control review to ensure we meet the review objectives and obtain sufficient, competent, and relevant evidence to support the findings, conclusions, and recommendations. We evaluated PwC’s FY 2019 single audit of the Institute using the CIGIE “Guide for Quality Control Reviews of Single Audits” (2016 edition). We believe that the evidence we obtained was sufficient, competent, and relevant to lead a reasonable person to sustain our conclusions.

The Office of Management and Budget designated the Federal Audit Clearinghouse as the repository of record for single audit reports. The Federal Audit Clearinghouse received the Institute’s FY 2019 single audit report on August 11, 2020. The report identified the Research and Development Cluster as the one major program at the Institute. We focused our review on the following aspects of the single audit.

- Qualification of auditors
- Auditor independence
- Due professional care
- Planning and supervision
- Audit followup
- Internal control and compliance testing
- Schedule of expenditures of Federal awards
- Reporting

We conducted virtual meetings and interviewed the PwC auditors, assigned to PwC’s McLean, Virginia, office, who performed the FY 2019 single audit of the Institute. We reviewed PwC’s audit files for its FY 2019 single audit to assess whether PwC conducted the single audit in accordance with generally accepted government auditing standards and Uniform Guidance requirements. Generally accepted government auditing standards include both the Government Accountability Office’s “Government Auditing Standards” and the American Institute for Certified Public Accountants’ “Codification of Statements on Auditing Standards.” Uniform Guidance requirements for the single audit are identified in 2 CFR part 200.

Our review included evaluating evidence of the PwC auditor qualifications, independence, and quality assurance. We also reviewed all audit documentation that PwC auditors prepared to support the audit opinions on whether the Institute's financial statements and its schedule of expenditures of Federal awards were fairly presented in all material respects. In addition, we reviewed all documentation that PwC auditors prepared to support the audit opinion on whether the Institute complied with the compliance requirements that could have a direct and material effect on the Research and Development Cluster. Our review of PwC's audit documentation on direct and material compliance requirements included analyzing audit procedures on: (1) the understanding of the Institute's internal control, (2) the sampling methodologies used, and (3) the internal control and compliance testing performed. We discussed PwC's audit procedures performed with the PwC auditors, as necessary, to understand the audit work performed.

Use of Computer-Processed Data

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

Prior Coverage

During the last 5 years, the DoD Office of Inspector General (OIG) and the National Science Foundation OIG issued three reports discussing whether PwC conducted single audits in accordance with generally accepted government auditing standards and Federal requirements.

Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

Unrestricted National Science Foundation OIG reports can be accessed at <https://www.nsf.gov/oig/reports/>.

DoD OIG

Report No. DODIG-2019-067, "Quality Control Review of the PricewaterhouseCoopers LLP FY 2017 Single Audit of the CNA Corporation," March 22, 2019

PwC complied with auditing standards and Uniform Guidance requirements when it performed the FY 2017 single audit of the CNA Corporation.

Report No. DODIG-2017-084, "Quality Control Review of the PricewaterhouseCoopers LLP FY 2015 Single Audit of the RAND Corporation," May 19, 2017

PwC complied with the auditing standards and Federal requirements when it performed the FY 2015 single audit of the RAND Corporation.

National Science Foundation OIG

Report No. OIG 18-8-002, "Quality Control Review of PricewaterhouseCoopers LLP's FY 2016 Single Audit of the California Institute of Technology," May 14, 2018

The National Science Foundation OIG concluded that PwC's audit documentation contained no quality deficiencies that required corrective action for the audit under review or future audits.

Appendix B

Compliance Requirements

The Office of Management and Budget issues the Compliance Supplement, which provides guidance to assist auditors in determining compliance requirements applicable to the audit.⁹ The Compliance Supplement summarizes Federal requirements into 12 compliance requirements. For the Research and Development Cluster, the Compliance Supplement states that all compliance requirements are applicable, except for the Eligibility; Matching, Level of Effort, and Earmarking; Program Income; and Reporting compliance requirements. Auditors who perform a single audit are required to test those compliance requirements that are direct and material to the major program. See the table below for the compliance requirements that the PwC auditors determined were direct and material to the major program.

Table. Uniform Guidance Compliance Requirements that PwC Identified as Direct and Material to the Major Program

Uniform Guidance Compliance Requirements	Direct and Material
Activities Allowed or Unallowed	X
Allowable Costs/Cost Principles	X
Cash Management	X
Eligibility	
Equipment and Real Property Management	X
Matching, Level of Effort, Earmarking	
Period of Performance	X
Procurement, Suspension, and Debarment	X
Program Income	
Reporting	
Subrecipient Monitoring	
Special Tests and Provisions	X

Source: The DoD OIG, based on PwC audit documentation.

⁹ 2 CFR Part 200, Appendix XI, "Compliance Supplement," August 2019.

Acronyms and Abbreviations

CFR Code of Federal Regulations

CIGIE Council of the Inspectors General on Integrity and Efficiency

OIG Office of Inspector General

PwC PricewaterhouseCoopers LLP

Whistleblower Protection

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