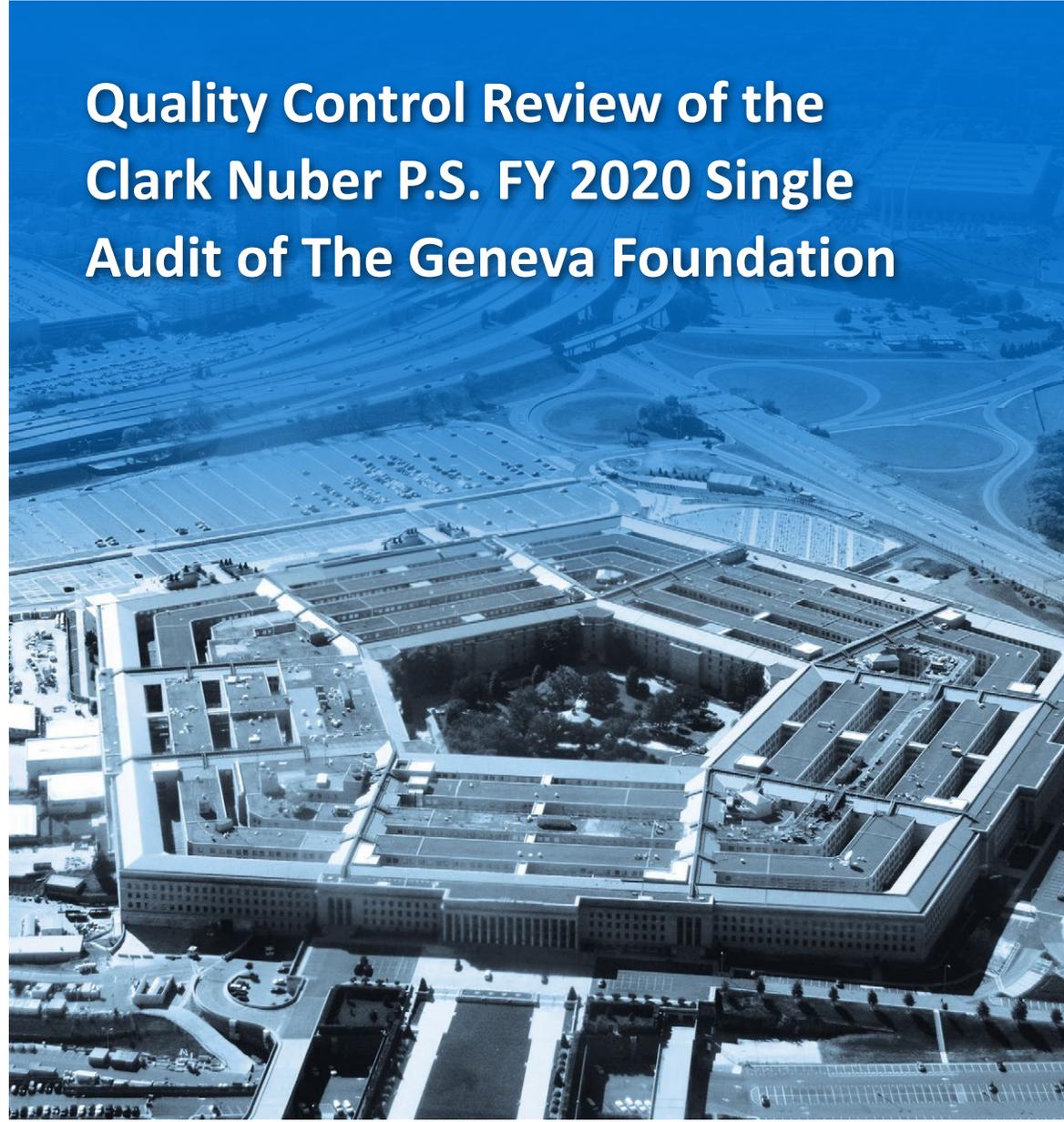


INSPECTOR GENERAL

U.S. Department of Defense

SEPTEMBER 1, 2022



Quality Control Review of the Clark Nuber P.S. FY 2020 Single Audit of The Geneva Foundation

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





Results in Brief

Quality Control Review of the Clark Nuber P.S. FY 2020 Single Audit of The Geneva Foundation

September 1, 2022

Objective

The objective of this quality control review was to determine whether Clark Nuber P.S. (Clark Nuber) performed the FY 2020 single audit of the Geneva Foundation (the Foundation) in accordance with generally accepted government auditing standards (GAGAS) 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, part 200 (Uniform Guidance) audit 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.

The Foundation is a not-for-profit corporation established to provide medical research and educational activities in military medical facilities and Federal laboratories. In FY 2020, the Geneva Foundation spent approximately \$53 million in Federal awards on one major program, the Research and Development Cluster. Of this amount, the Foundation spent \$49 million on DoD awards. The Foundation engaged Clark Nuber to perform its FY 2020 single audit.

Finding

The Clark Nuber auditors did not comply with GAGAS and Uniform Guidance requirements when they reviewed the Special Tests

Finding (cont'd)

and Provisions compliance requirement. Specifically, the Clark Nuber auditors identified key personnel requirements as a special test and provision that they planned to test. However, the Clark Nuber audit documentation did not include evidence of the audit procedures the auditors performed to test the Foundation's compliance with key personnel requirements as required by GAGAS and Uniform Guidance requirements. As a result of the lack of documentation, we concluded that the Clark Nuber auditors did not support their conclusion on compliance with key personnel requirements. Therefore, the Clark Nuber auditors need to perform additional audit procedures before users of the single audit report can rely on the auditors' conclusion that the Foundation complied with key personnel requirements. Except for Clark Nuber's review of the Special Tests and Provisions compliance requirement, the FY 2020 single audit of the Foundation complied with GAGAS and Uniform Guidance requirements.

Recommendations

We recommend that the Clark Nuber Shareholder:

- Perform and document additional audit procedures for the FY 2020 single audit to test the Foundation's compliance with key personnel requirements.
- Update the FY 2020 single audit report of the Geneva Foundation, as necessary, for the results of the additional audit procedures.

Management Comments and Our Response

The Clark Nuber Shareholder agreed with our recommendations and stated that Clark Nuber started to perform additional audit procedures and will update the single audit report, as necessary.

Comments from the Clark Nuber Shareholder addressed the specifics of the recommendations; therefore, the recommendations are resolved but remain open. We will close the recommendations once we perform followup procedures to verify that Clark Nuber's corrective actions fully address our recommendations.

Please refer to the recommendations table on the next page.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Clark Nuber P.S.	None	1a, 1b	None

Note: The following categories are used to describe 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** – DoD OIG verified that the agreed upon corrective actions were implemented.



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

September 1, 2022

Shareholder
Clark Nuber P.S.

**SUBJECT: Quality Control Review of the Clark Nuber P.S. FY 2020 Single Audit
of The Geneva Foundation (Report No. DODIG-2022-123)**

This final report provides the results of the DoD Office of Inspector General's quality control review. We previously provided a copy of the draft report and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in the report.

The Clark Nuber Shareholder agreed to address the recommendations presented in the report; therefore, we consider the recommendations resolved and open. As described in the Recommendations, Management Comments, and Our Response section of this report, we will close the recommendations when you provide us adequate documentation showing that Clark Nuber has completed all agreed-upon actions to implement the recommendations. Therefore, upon completion of the corrective actions for the FY 2020 single audit of the Geneva Foundation, please notify us of the specific actions taken in response to the recommendations. Send your notice to [REDACTED]

If you have any questions, please contact [REDACTED]

A handwritten signature in black ink, appearing to read "Randolph R. Stone", is positioned above the printed name.

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

Contents

Introduction

Objective.....	1
Background.....	1
Review Results.....	3

Finding. Clark Nuber Did Not Include Evidence to Support That the Geneva Foundation Complied With the Special Tests and Provisions Compliance Requirement.....

Clark Nuber Auditors Did Not Document Compliance Testing of Key Personnel Requirements.....	4
Clark Nuber Did Not Support its Audit Conclusion on Compliance With Key Personnel Requirements.....	6
Recommendations, Management Comments, and Our Response.....	6

Appendixes

Appendix A. Scope and Methodology.....	8
Use of Computer-Processed Data.....	9
Prior Coverage.....	9
Appendix B. Compliance Requirements.....	10

Management Comments

Clark Nuber P.S.....	11
----------------------	----

Acronyms and Abbreviations.....

Introduction

Objective

The objective of this quality control review was to determine whether Clark Nuber P.S. (Clark Nuber) performed the FY 2020 single audit of the Geneva Foundation (the Foundation) in accordance with generally accepted government auditing standards (GAGAS) and Federal requirements for single audits.¹ Appendix A contains our scope and methodology. Appendix B lists the compliance requirements that Clark Nuber identified as direct and material to the Foundation's major program for the fiscal year ended December 31, 2020.

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 (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

In accordance with the Uniform Guidance, non-Federal entities must have an annual single or program-specific audit performed in accordance with GAGAS. Non-Federal entities must also submit a complete single audit reporting package (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. The auditors performing the single audit determine whether the financial 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

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

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 (January 2020).

³ 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).

non-Federal entity complied with Federal laws, 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 Clark Nuber's FY 2020 single audit satisfies this requirement.

The Geneva Foundation Provides Medical Research and Educational Activities

The Foundation is a not-for-profit corporation established in 1993 to provide medical research and educational activities in military medical facilities and Federal laboratories. Such activities include project management supporting the development of new medical therapies and treatments, and educational opportunities for military researchers. In FY 2020, the Geneva Foundation spent approximately \$53 million in Federal awards on one major program, the Research and Development (R&D) Cluster.⁴ Of this amount, the Foundation spent \$49 million on DoD awards. The Foundation engaged Clark Nuber to perform its FY 2020 single audit.

Clark Nuber Performed the Single Audit

Clark Nuber is an accounting and consulting firm that performs audits, reviews, compilations, and tax compliance and planning services for a wide range of companies. As required by GAGAS, Clark Nuber is responsible for establishing and maintaining a system of quality control. The system of quality control must provide reasonable assurance that the audit organization and its staff comply with professional standards and legal and regulatory requirements.⁵ Clark Nuber must also obtain an external peer review of its system of quality control conducted by reviewers independent of the audit firm.⁶ The most recently published external peer review report concluded that Clark Nuber had suitably designed and complied with its system of quality control for the accounting and auditing practice.⁷ The Clark Nuber office located in Bellevue, Washington, performed the Foundation's FY 2020 single audit. A Clark Nuber shareholder was responsible for overseeing the audit work and signing the single audit report on behalf of the audit firm.

⁴ The R&D 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.

⁵ Government Auditing Standard 5.02, "Quality Control and Assurance," July 2018, (Updated, April 2021).

⁶ Government Auditing Standard 5.60, "External Peer Review," July 2018, (Updated, April 2021).

⁷ Report on the Firm's System of Quality Control, dated November 20, 2019, completed by Postlethwaite & Netterville.

Review Results

We determined that the Clark Nuber auditors did not comply with GAGAS and Uniform Guidance requirements when they reviewed the Special Tests and Provisions compliance requirement. Specifically, the Clark Nuber auditors identified key personnel requirements as a special test and provision that they planned to test.

However, the Clark Nuber audit documentation did not include evidence of the audit procedures the auditors performed to test the Foundation's compliance with key personnel requirements as the American Institute for Certified Public Accountants' "Codification of Statements on Auditing Standards" (AU-C) 500A.04, AU-C 230.08, and Uniform Guidance section 200.514(d) require. Therefore, the Clark Nuber audit documentation did not support the auditor's reported conclusion on the Foundation's compliance with key personnel requirements. Except for the Clark Nuber auditors' review of the Special Tests and Provisions compliance requirement, the FY 2020 single audit of the Foundation complied with GAGAS and Uniform Guidance requirements.

We used the Council of the Inspectors General on Integrity and Efficiency (CIGIE) "Guide for Quality Control Reviews of Single Audits" to perform our review. The CIGIE Guide identifies audit procedures that auditors must perform and document during the single audit to meet GAGAS and Uniform Guidance requirements. We reviewed Clark Nuber's audit documentation, analyzed the nature and extent of the Clark Nuber audit procedures, and verified whether Clark Nuber obtained sufficient evidence to support its conclusions and audit report opinion. Specifically, we verified whether Clark Nuber complied with the requirements for each of the following aspects of the FY 2020 single audit of the Foundation:

- qualification of auditors,
- auditor independence,
- due professional care,
- planning and supervision,
- audit followup,
- internal control and compliance testing,
- schedule of expenditures of Federal awards, and
- reporting.

Finding

Clark Nuber Did Not Include Evidence to Support That the Geneva Foundation Complied With the Special Tests and Provisions Compliance Requirement

The Clark Nuber audit documentation did not include evidence to support the auditor's conclusion that the Foundation complied with the Special Tests and Provisions compliance requirement. Specifically, the Clark Nuber auditors identified key personnel requirements as a special test and provision that they planned to test. However, the Clark Nuber audit documentation did not identify the audit procedures the auditors performed or the evidence they examined to support the conclusion that the Foundation complied with key personnel requirements, as required by AU-C 500A.04, AU-C 230.08, and Uniform Guidance section 200.514(d). The Clark Nuber auditors explained that they performed audit procedures to test the Foundation's compliance with key personnel requirements but they could not locate the documentation. As a result, we concluded that the Clark Nuber auditors need to perform additional audit procedures before users of the single audit report can rely on Clark Nuber's conclusion that the Foundation complied with key personnel requirements.

Clark Nuber Auditors Did Not Document Compliance Testing of Key Personnel Requirements

The Clark Nuber audit documentation did not include evidence to support the auditor's conclusion that the Foundation complied with the Special Tests and Provisions compliance requirement because the Clark Nuber auditors did not document compliance testing of key personnel requirements. The auditing standards and Uniform Guidance include the following requirements for performing compliance testing and other procedures, and for documenting evidence of those procedures to support the audit conclusions:

- AU-C 500A.04 requires the auditor to design and perform audit procedures that enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions.
- AU-C 230.08 requires the audit documentation to be sufficient to enable an experienced auditor having no previous connection with the audit to understand the audit procedures performed, the results of the audit procedures performed, the evidence obtained, and the conclusions the auditor reached.

- Uniform Guidance section 200.514(d) requires auditors to determine whether the auditee has complied with Federal laws, regulations, and the terms and conditions of Federal awards that may have a direct and material effect on the major program. The compliance testing must include tests of transactions and other procedures necessary to provide the auditor sufficient appropriate audit evidence to support an opinion on compliance.

The Special Tests and Provisions compliance requirement was among seven compliance requirements that the Clark Nuber auditors determined were direct and material (See the Table in Appendix B). The Clark Nuber auditors determined that the Special Tests and Provisions compliance requirement was direct and material because they identified key personnel requirements in grants awarded to the Foundation. For example, the auditors identified a grant that included a key personnel requirement for which the Foundation had to report instances when the Principal Investigator spent less than 25 percent of his time on the grant. Therefore, the Clark Nuber auditors were required to perform compliance testing of the key personnel requirements in accordance with Uniform Guidance section 200.514(d).

However, the audit documentation did not include any evidence that the Clark Nuber auditors performed compliance testing or other procedures to determine whether the Foundation reported instances when the Principal Investigator spent less than 25 percent of his time on the grant. Without evidence of compliance testing, Clark Nuber did not support its conclusion that the Foundation complied with the grant's key personnel requirement, as AU-C 500A.04, AU-C 230.08, and Uniform Guidance section 200.514(d) require.

We requested that the Clark Nuber auditors explain why the single audit file did not contain evidence of the compliance testing performed on the key personnel requirements. The Clark Nuber auditors stated that the audit program for the R&D Cluster included an audit step to review a sample of the Foundation's grant agreements and determine if key personnel identified in the agreements were involved in the projects as required. However, the auditors explained that the working paper containing the documentation of the compliance testing they performed could not be located. We agree that the audit program for R&D cluster included a planned audit step to test compliance with key personnel requirements, but the audit documentation contains no record that the Clark Nuber auditors performed the planned audit step.

Clark Nuber Did Not Support its Audit Conclusion on Compliance With Key Personnel Requirements

As a result of the lack of audit documentation, we concluded that the Clark Nuber auditors did not support their conclusion on compliance with key personnel requirements. Therefore, the Clark Nuber auditors need to perform additional audit procedures before users of the single audit report can rely on the auditors' conclusion that the Foundation complied with key personnel requirements. As required by AU-C 230.08, the audit documentation for the additional audit procedures must be sufficient for an experienced auditor to understand the nature, timing, and extent of the audit procedures performed, the results of the procedures performed, the audit evidence obtained, and the conclusions reached. The Clark Nuber auditors should perform and document additional audit procedures to determine whether the Foundation complied with key personnel requirements specified in the grant agreements, and update the FY 2020 single audit report as necessary for the results of the additional audit procedures.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Clark Nuber Shareholder:

- a. **Perform and document additional audit procedures for the FY 2020 single audit to determine whether the Geneva Foundation complied with key personnel requirements specified in the grant agreements.**
- b. **Update the FY 2020 single audit report of the Geneva Foundation, as necessary, for the results of the additional audit procedures performed in response to Recommendation 1.a.**

Clark Nuber P.S. Shareholder Comments

The Clark Nuber Shareholder agreed with our recommendations and stated that Clark Nuber:

- started performing additional audit procedures to provide documentation to support the testing of compliance with key personnel requirements, and
- will update the FY 2020 single audit report of the Geneva Foundation, if determined necessary, based on the results of the additional audit procedures.

Our Response

Comments from the Clark Nuber Shareholder addressed the specifics of the recommendations; therefore, the recommendations are resolved, but remain open. We will close the recommendations once we perform followup procedures on the FY 2020 single audit report of the Geneva Foundation to verify that Clark Nuber completed the corrective actions.

Appendix A

Scope and Methodology

We conducted this quality control review from January 2022 through July 2022 in accordance with the “Quality Standards for Inspection and Evaluation,” published in December 2020 by the Council of Inspectors General on Integrity and Efficiency. Those standards require that we adequately plan the quality control 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 we obtained was sufficient, competent, and relevant to lead a reasonable person to sustain the finding, conclusion, and recommendations.

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 Foundation’s FY 2020 single audit report on June 4, 2021.

The single audit report identified the R&D Cluster as the one major program at the Foundation. We evaluated the FY 2020 single audit of the Foundation performed by Clark Nuber using the CIGIE “Guide for Quality Control Reviews of Single Audits” (2021 edition). 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, and
- reporting.

We conducted interviews with the Clark Nuber, Bellevue, Washington, auditors who performed the FY 2020 single audit of the Foundation. We reviewed Clark Nuber’s audit files for the FY 2020 single audit to assess whether the Clark Nuber auditors conducted the single audit in accordance with GAGAS and Uniform Guidance requirements. GAGAS include both the Government Accountability Office’s

“Government Auditing Standards” and the American Institute for Certified Public Accountants’ “Codification of Statements on Auditing Standards,” which are incorporated into GAGAS by reference. Uniform Guidance requirements for single audits are identified in 2 CFR Part 200.

Our review included evaluating evidence of Clark Nuber’s independence, auditor qualifications, and external peer review. We also reviewed all audit documentation that Clark Nuber auditors prepared to support the audit opinions on whether the Foundation’s financial statements and its schedule of expenditures of Federal awards were presented fairly in all material respects. In addition, we reviewed all documentation that the Clark Nuber auditors prepared to support the audit opinion on whether the Foundation complied with the compliance requirements that could have a direct and material effect on the R&D Cluster. Our review of Clark Nuber’s audit documentation on direct and material compliance requirements included analyzing audit procedures the Clark Nuber auditors performed to: (1) understand the Foundation’s internal controls, (2) select samples for testing, and (3) test the internal controls and compliance with Federal requirements. As necessary, we discussed the Clark Nuber audit procedures with the Clark Nuber auditors to understand and verify the audit work they performed. Appendix B lists the compliance requirements that Clark Nuber identified as direct and material to the Foundation’s major program for the fiscal year ended December 31, 2020.

Use of Computer-Processed Data

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

Prior Coverage

No prior coverage has been conducted on Clark Nuber P.S. during the last 5 years.

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.⁸ The Compliance Supplement summarizes Federal requirements into 12 compliance requirements. For the R&D 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 they determine are direct and material to the major program. The following table identifies the compliance requirements that the Clark Nuber auditors determined were direct and material to the major program.

Table. Uniform Guidance Compliance Requirements that Clark Nuber 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	
Procurement, Suspension, and Debarment	X
Program Income	
Reporting	
Subrecipient Monitoring	X
Special Tests and Provisions	X

Source: DoD OIG, based on Clark Nuber's audit documentation.

⁸ 2 CFR Part 200, Appendix XI, "Compliance Supplement," August 2020.

Management Comments

Clark Nuber P.S.

Clark Nuber PS

August 1, 2022

██████████
Auditor Technical Specialist
Department of Defense, Office of Inspector General
Evaluations - Space, Intelligence, Engineering & Oversight Audit Oversight -
Single Audit

SUBJECT: Quality Control Review of the Clark Nuber P.S. FY 2020 Single Audit of The Geneva Foundation (Project No. D2020-DEVOS0SO-0083.000)

Dear ██████████

The purpose of this letter is to provide our comments on the recommendations and public review release related to the draft report for the project mentioned above in order for them to be considered in the final report.

- With respect to public release, we have not identified any CUI in your draft report or our comment.
- With respect to the finding and recommendations in the draft report we respond as follows:
 - Management concurs with the finding. We have already begun the following corrective actions.
 - As noted in your report, our audit program for the R&D Cluster did include an audit step to review a sample of the Foundation's projects and determine if key personnel identified in the awards were involved in the project as required, but the documentation of the performance of this audit procedure was not in our audit file. We have begun the process to perform this step to provide documentation of the evidence to support our testing of compliance related to key personnel.
 - We will update the FY 2020 single audit report of The Geneva Foundation, if determined to be necessary based on the results of performing the testing noted above.

We anticipate having these procedures done by October 15, 2022.

Clark Nuber P.S.
Clark Nuber P.S.



T: 425-454-4919
T: 800-504-8747
F: 425-454-4620

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com

Acronyms and Abbreviations

- AU-C** Codification of Statements on Auditing Standards
- CFR** Code of Federal Regulations
- CIGIE** Council of the Inspectors General on Integrity and Efficiency
- GAGAS** Generally accepted government auditing standards
- R&D** Research and Development

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

Whistleblower Protection safeguards DoD employees against retaliation for protected disclosures that expose possible fraud, waste, and abuse in Government programs. For more information, please visit the Whistleblower webpage at <http://www.dodig.mil/Components/Administrative-Investigations/Whistleblower-Reprisal-Investigations/Whistleblower-Reprisal/> or contact the Whistleblower Protection Coordinator at Whistleblowerprotectioncoordinator@dodig.mil

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

Congressional Liaison

703.604.8324

Media Contact

public.affairs@dodig.mil; 703.604.8324

DoD OIG Mailing Lists

www.dodig.mil/Mailing-Lists/

Twitter

www.twitter.com/DoD_IG

DoD Hotline

www.dodig.mil/hotline



DEPARTMENT OF DEFENSE | OFFICE OF INSPECTOR GENERAL

4800 Mark Center Drive
Alexandria, Virginia 22350-1500
www.dodig.mil
DoD Hotline 1.800.424.9098

