Inspector General

United States Department of Defense

Oversight Review February 28, 2011

Report on Quality Control Review of the PricewaterhouseCoopers, LLP and Defense Contract Audit Agency FY 2008 Single Audit of the Charles Stark Draper Laboratory, Incorporated

Report No. D-2011-6-004

Additional Information and Copies

To obtain additional copies of the final report, visit the Web site of the Department of Defense Inspector General at www.dodig.mil/audit/reports or contact the Office of the Assistant Inspector General for Audit Policy and Oversight at (703) 604-8760 or fax (703) 604-8982.

Suggestions for Future Reviews

To suggest ideas for or to request future reviews, contact the Office of the Assistant Inspector General for Audit Policy and Oversight by phone (703) 604-8760 (DSN 664-8760), by fax (703) 604-8982, or by mail:

Office of the Assistant Inspector General
for Audit Policy and Oversight
Department of Defense Inspector General
400 Army Navy Drive (Room 833)
Arlington, VA 22202-4704

If you suspect Fraud, Waste, Abuse, or Mismanagement in the Department of Defense, please contact:

DEPARTMENT OF DEFENSE hotline

To report fraud, waste, mismanagement, and abuse of authority.

Send written complaints to: Defense Hotline, The Pentagon, Washington, DC 20301-1900
Phone: 800.424.9098 e-mail: hotline@dodig.mil www.dodig.mil/hotline

Acronyms

AICPA	American Institute of Certified Public Accountants
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency

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

FEB 28 2011

Director
Defense Contract Audit Agency

Branch Manager
Boston Branch Office
Defense Contract Audit Agency

Audit Partner
PricewaterhouseCoopers, LLP

Board of Directors
The Charles Stark Draper Laboratory, Incorporated

Vice President and Treasurer
The Charles Stark Draper Laboratory, Incorporated

SUBJECT: Report on Quality Control Review of the PricewaterhouseCoopers, LLP and Defense Contract Audit Agency FY 2008 Single Audit of the Charles Stark Draper Laboratory, Incorporated (Report No. D-2011-6-004)

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. As the cognizant Federal agency for Charles Stark Draper Laboratory (the Laboratory), we performed a review of the PricewaterhouseCoopers, LLP and the Defense Contract Audit Agency (DCAA) single audit and supporting work papers for the audit period July 1, 2007, through June 27, 2008. The purpose of our review was to determine whether the single audit was conducted in accordance with auditing standards[1] and the auditing and reporting requirements of the Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," (Circular A-133). Appendix A contains additional background, scope, and methodology for the review.

[1] Auditing standards include both Government Auditing Standards and the American Institute of Certified Public Accountants' audit standards.

The PricewaterhouseCoopers office in Boston, Massachusetts performed the audit of the financial statements. PricewaterhouseCoopers and the DCAA Boston Branch Office in Boston, Massachusetts performed a coordinated audit of the research and development program cluster. Appendix B presents the research and development compliance requirements and the division of audit responsibility between PricewaterhouseCoopers and DCAA for the audit period ended June 27, 2008.

Background. Charles Stark Draper Laboratory is a non-profit scientific research corporation located in Cambridge, Massachusetts. The laboratory engages in scientific research, development of prototype operational systems, and provides technical support to government programs.

The Laboratory expended $428.9 million in Federal awards for the fiscal year ended June 27, 2008, under one federal program, the research and development cluster. Of the $428.9 million, $362 million was expended for Department of Defense programs.

Review Results. **The Defense Contract Audit Agency** did not comply with Circular A-133 reporting requirements. As a result, DCAA must revise the FY 2008 Circular A-133 report to include a finding to provide information on circumstances surrounding the qualification of the compliance opinion. We also identified deficiencies in the review and documentation of equipment and real property requirements, performance of fraud risk assessment procedures, and audit documentation that need to be corrected in future audits. In addition, we identified DCAA's failure to follow its policy for reporting noncompliance with cost accounting standards that should be resolved by the DCAA Branch Office. We also identified areas where additional audit guidance is needed to ensure compliance with auditing standards (Finding A).

The PricewaterhouseCoopers audit of the financial statements and the research and development program cluster generally met auditing standards and Circular A-133 requirements. However, we identified a deficiency in the review of special tests and provisions and the sufficiency of audit documentation that needs to be corrected in future audits (Finding B).

Charles Stark Draper Laboratory complied with the Circular A-133 reporting requirements. However, the Laboratory needs to take future actions to ensure that the single audit covers all programs in the research and development cluster as required by Circular A-133 requirements. In addition, the Laboratory will have to re-submit the FY 2008 Circular A-133 reporting package and data collection form to the Federal Audit Clearinghouse upon receipt of the revised DCAA audit report (Finding C).

Management Comments and DoD IG Response. DCAA, PricewaterHouseCoopers and the Laboratory agreed to take the recommended actions. Management comments were responsive and conformed to requirements; no additional comments are needed. Management comments are included in their entirety at the end of this report.

Finding A. Performance, Documentation and Reporting of the Federal Program Audit. DCAA did not perform and document adequate procedures for relying on the work of the Defense Contract Management Agency (DCMA) for the review of equipment and real property requirements and they did not plan and perform sufficient fraud risk assessment procedures. In addition, the documentation for the testing of internal control over compliance for allowable activities, allowable cost principles and the procurement, suspension and debarment requirements did not fully comply with auditing standards. Further, DCAA did not comply with the Circular A-133 reporting requirements because they did not report a finding related to the qualified opinion on compliance. Also, they did not follow DCAA reporting policy because they did not issue a report to the administrative contracting officer on the Laboratory's noncompliance with two cost accounting standards. In addition, we identified several audit areas where the DCAA needs to improve audit guidance through revisions to the Contract Audit Manual, the standard A-133 audit program, or other appropriate means to ensure auditor compliance with auditing standards and Circular A-133 requirements.

Equipment and Real Property. DCAA did not perform sufficient procedures to allow them to rely on the DCMA work as support for their audit conclusions on the review of equipment and real property compliance requirements (property requirements). The conclusions on the effectiveness of internal control over and compliance with property requirements were primarily based on a property system analysis performed by DCMA, a non-audit agency. As a result, the DCAA work papers did not contain sufficient evidence to support the conclusions on compliance with property requirements for the use, management and disposition of property acquired under federal awards. There was no documented evidence of the performance of tests of the operating effectiveness of key controls, assessment of the risk of non-compliance and performance of tests of compliance based on the assessed risk as required by Circular A-133.

Circular A-133 requires that the auditor gain an understanding of internal control over compliance, identify and test key internal controls, assess the risk of noncompliance and determine the nature and extent of compliance testing needed to provide sufficient evidence to support the auditor's conclusion. In addition, Circular A-133 requires that the single audit is performed by an auditor, in accordance with government auditing standards. Under the standards, the auditor may rely on the work of others if they take the proper steps to ensure that the scope of the work is sufficient to meet the audit

objectives and if they perform additional procedures, as described in the standards, to evaluate the quality and effectiveness of the work performed

Based on our review of the work papers, we concluded that DCAA did not ensure that the scope of the DCMA work met the Circular A-133 audit requirements. DCAA did not coordinate with the DCMA property administrator in advance of the property system analysis to ensure that the approach and scope of the review would meet the objectives of the single audit. The DCAA work papers provided a general description of the DCMA procedures and noted the analyst's conclusions; however, the documentation did not address the key internal controls tested, an assessment of the risk of noncompliance, identify the sampling methodology used for selecting equipment for compliance testing or identify the equipment tested. In addition, DCAA did not perform additional procedures on the analyst's work or perform additional tests of controls and compliance to evaluate the quality and effectiveness of the DCMA work performed. As a result, there was insufficient evidence in the working papers to support the auditor's judgment to place reliance on DCMA's review as support for DCAA's conclusions on the adequacy of internal control over and compliance with property management requirements.

As part of our review on the adequacy of the DCAA audit approach for property management requirements, we evaluated the current DCAA Contract Audit Manual guidance on the use and evaluation of non-auditor work products in meeting the objectives of the Circular A-133 audit. Chapter 13-703 "Coordinated Audit Approach" provides guidance on implementing a coordinated audit approach in the Circular A-133 audit and discusses using the work of non-auditors. The guidance identifies non-auditors as participants, and requires that all participants under this approach coordinate in advance of performing the audit to ensure that the scope of work is sufficient to meet the audit and review responsibilities of all participants. The guidance also states that the auditor "must perform steps necessary" to place reliance on non-auditor work; however, the guidance does not elaborate on the required procedures or discuss factors that would influence the extent of procedures such as the significance of the non-auditor work to the audit objectives and degree the work will be used to support the audit conclusions.

Because of the deficiencies noted, the DCAA auditors need additional guidance when relying on the work of non-auditors to accomplish the objectives of the Circular A-133 audit. In addition, we will recommend that the Boston Branch Office take corrective actions in future Circular A-133 audits when relying on the work of non-auditors to ensure that they have sufficient evidence to support their audit conclusions.

Fraud Risk Assessment Procedures. DCAA did not perform sufficient fraud risk assessment procedures during the planning and performance of the audit. The Circular A-133 audit program procedures simply require the auditor to evaluate the fraud

risk indicators identified in the DoDIG "Handbook on Fraud Indicators for Contract Auditors." The working papers documented that the evaluation of fraud indicators was limited to a review of the permanent files and "other recent audit activities" performed at the Laboratory. Based on this review, DCAA concluded that there were no identified fraud risks.

OMB Circular A-133 requires that the single audits be performed in accordance with government auditing standards applicable to financial statements, which incorporate the American Institute of Certified Public Accountants (AICPA) auditing standards. AICPA auditing standards, AU §316, "Consideration of Fraud in a Financial Statement Audit," requires the auditor to plan and perform the audit to obtain reasonable assurance that material misstatements and noncompliance, whether caused by error or fraud, are detected. Specifically, as a means of obtaining information needed to identify fraud risk areas, the standards require, among other procedures, inquiries of management during the planning process to determine if they have knowledge of any fraud or suspected fraud affecting the entity.

DCAA needs to revise the guidance on required fraud risk assessment procedures in both the standard Circular A-133 audit program and the Contract Audit Manual to ensure that auditors are knowledgeable of the auditing standard requirements for the consideration of fraud in a Circular A-133 audit.

The need for revised guidance on fraud risk assessment procedures was previously reported in our audit report D-2011-6-002, dated October 29, 2010 "Report on Quality Control Review of the Deloitte & Touche and the Defense Contract Audit Agency FY 2008 Single Audit of the Aerospace Corporation". DCAA management concurred with our recommendations for revisions and plans to take corrective actions by January 2011. However, until the corrective actions are complete we will continue to include the finding on risk assessment procedures and the recommendation for revisions in our reports when appropriate.

Federal Program Documentation. DCAA did not adequately document the review of internal control over compliance with the activities allowed and allowable cost principle requirements (allowable cost), and the procurement suspension and debarment requirements (procurement). DCAA documented their understanding of internal control over compliance for both the allowable cost and the procurement requirements, but did not document the specific key controls they intended to test. The working papers indicate that the auditor planned to rely, in part, on internal control testing performed in other audit assignments; however, the working papers did not provide a clear audit trail to the control testing performed.

DCAA subsequently provided additional documentation that identified the prior audits and control testing relied on. However, although the documentation included some current year testing of controls, many of the examples were descriptions of existing policies and procedures rather than tests of the operating effectiveness of specific controls. In addition, the documentation provided showed that the auditor also relied on controls tested in FYs 2004 and 2005 as support for the FY 2008 review conclusions. This approach is not in accordance with the AICPA auditing standards considered applicable to the Circular A-133 audit at the time of the DCAA audit.[2] AU 318, "Performing Audit Procedures in Response to Assessed Risks and Evaluation of Audit Evidence Obtained," states that although it is a matter of professional judgment to rely on audit evidence obtained in prior audits, the length of time between retesting controls should not exceed more than two years. As a result of these deficiencies, we spent considerable time obtaining verbal explanations and reviewing additional information in order to make a determination on the sufficiency of the audit evidence to support the auditor's conclusion.

In addition, DCAA should review the A-133 audit program and the Contract Audit Manual, Chapter 13, to ensure that the guidance conforms with the standards and guidance in Statement on Auditing Standards 117 "Compliance Audits" issued in December 2009 and revise its guidance as necessary. The standard was primarily developed in response to the results of a federal study which showed that improvements were needed in the performance of the Circular A-133 audit.

Statement on Auditing Standards 117 establishes standards and application guidance on performing and reporting on the audit of compliance when the auditor is required to express an opinion on compliance in accordance with auditing standards and government audit requirements. The standard incorporates the AICPA risk assessment standards and requires the auditor to adapt and apply the AICPA auditing standards to a compliance audit. The standard and the associated application guidance will influence DCAA's approach to the review of internal control in the Circular A-133 audit (see footnote 2).

Reporting Audit Findings in Accordance with Circular A-133 and the Defense Contract Audit Manual Requirements. DCAA did not comply with the Circular A-133 reporting requirements because they did not report a finding related to the qualified opinion on compliance and they did not follow DCAA reporting policy because they did not issue a report to the administrative contracting officer on the Laboratory's noncompliance with two cost accounting standards.

[2] Statement on Auditing Standards 117 issued in December 2009 and effective for audits of fiscal periods ending on or after June 15, 2010 no longer permit the auditor to rely on audit evidence obtained in prior audit as evidence of the operating effectiveness of controls in an annual Circular A-133 audit (AU 801 pars. 20 and A24)

Circular A-133 Audit Requirements. DCAA did not comply with Circular A-133 reporting requirements because they did not report the circumstances surrounding the qualification of the opinion on compliance for the research and development program in the schedule of findings and questioned cost. DCAA qualified the report on compliance with federal program requirements because they did not have access to certain awards due to externally imposed restrictions and they were unable to satisfy themselves on compliance with program requirements by other auditing procedures. Circular A-133 §__.510(a)(5) requires that the auditor report as an audit finding in the federal awards section of the schedule of findings and questioned costs the circumstances concerning why the auditor's report on compliance is other than an unqualified opinion, unless the circumstances are otherwise reported as an audit finding in the schedule.

Cost Accounting Standard Noncompliance Reporting. DCAA did not comply with the DCAA Contract Audit Manual guidance for reporting instances of noncompliance with cost accounting standards to the administrative contracting officer for resolution and disposition actions. The Contract Audit Manual section 8-302.7(c) requires the auditor to issue a separate report on all significant cost accounting standard violations. Separate reporting of noncompliant practices ensures that the administrative contracting officer has timely and complete information to perform their responsibilities for the administration of cost accounting standards. In addition, issuing separate noncompliance reports support the DoD contract audit follow-up process by providing a mechanism for tracking government actions on audit findings and recommendations.

DCAA audited the annual incurred cost audit as part of the Circular A-133 audit. The results of the audit included questioned costs some of which resulted from noncompliant practices with the requirements of cost accounting standards 405 “Accounting for Unallowable Cost,” 409 “Depreciation of Tangible Assets,” and 411 “Accounting for Acquisition Cost of Material.” The questioned costs were reported in the Circular A-133 audit report, however, except for the noncompliance with cost accounting standard 411, the auditor did not issue separate reports on the noncompliant practices related to the accounting for unallowable costs and the depreciation of tangible assets.

In the response to our draft report, DCAA states they re-evaluated their basis for citing the Laboratory was in noncompliance with cost accounting standard 409. Based on their re-evaluation, DCAA concluded that the Laboratory is in noncompliance with cost accounting standard 406 “Cost Accounting Period.” As a result, DCAA plans to issue the appropriate noncompliance report to the administrative contracting officer. In addition, they will address this error in the revised FY 2008 Circular A-133 audit report.

The Contract Audit Manual section 8-302.7(a) states that “noncompliance reports should include only cost accounting standards violations that the auditor considers significant”

and the Manual provides four general conditions under which a noncompliance would be considered significant and should be reported. We were unable to find any documentation in the audit file to explain the auditor's rationale for not issuing separate noncompliance reports as required.

We discussed the failure to issue reports with the DCAA, and we were advised that a decision was made not to issue the reports until after the administrative contracting officer made a final determination on the allowability of the questioned costs identified in the FY 2008 Circular A-133 report. However, the consideration of noncompliant practices goes beyond resolving the impact of questioned costs on audited accounting period. Noncompliant practices need to be corrected for the potential impact on future contract costs as well. Therefore, DCAA should have issued the noncompliance reports to ensure that the contracting officer's determination and resolution actions address any required changes to accounting practices as well as the resolution of questioned cost.

Contract Audit Manual Guidance on Reporting Internal Control Deficiencies. The DCAA Contract Audit Manual Chapter 13, "Audits at Educational Institutions, Nonprofit Organizations, and Federally Funded Research and Development Centers," section 700, "OMB Circular A-133 Audits and Reports," should be updated to reflect the current terminology on communicating internal control matters in accordance with OMB Circular A-133 reporting requirements. Specifically, effective with the June 26, 2007 Federal Register changes to OMB Circular A-133, the term "reportable condition" has been replaced with "significant deficiency" to conform with current auditing standards.

The need to update the Contract Audit Manual terminology on communicating matters related to internal control was previously reported in our audit report D-2011-6-002, dated October 29, 2010 "Report on Quality Control Review of the Deloitte & Touche and the Defense Contract Audit Agency FY 2008 Single Audit of the Aerospace Corporation". DCAA management concurred with our comments and agreed to take corrective actions. However, until the corrective actions are complete we will continue to include the finding and the recommendation for revisions in our reports when appropriate.

Conclusion. The deficiencies disclosed by our review indicate that DCAA management needs to implement more effective quality control procedures for the Circular A-133 audits and provide additional training in auditing standards and OMB Circular A-133 requirements to auditors performing OMB Circular A-133 audits.

Finding B. PricewaterhouseCoopers' Performance and Documentation of the Federal Program Audit. The procedures performed by the PricewaterhouseCoopers auditors were not sufficient to identify the existence of special tests and provisions in the Laboratory's contracts. As a result, they did not perform the required review and testing of internal control over and compliance with provisions for key personnel. In addition, the documentation of the federal program audit needs to be improved in future single audits to provide a clear audit trail to the specific procedures relied on to support the conclusions on compliance with Federal requirements.

Special Tests and Provisions Compliance Testing. The auditors reviewed a sample of 10 contracts and concluded that there were no special tests and provisions requirements for those awards. During our site visit, we re-tested five of the ten contracts to assess the adequacy of the auditor's conclusions and determined that three of the five contracts contained key personnel requirements. We discussed our findings with the auditor and were advised that the contracts reviewed contained the "key personnel" clause but key personnel were not identified so the auditor concluded that the clause was not exercised.

Because there was a discrepancy between the results of our review and the auditor's review, we contacted the Laboratory's contracting officer. Based on our discussions with the contracting officer's representative, we determined that the auditor's conclusions were based on a review of the general provisions in the basic ordering agreements rather than on the specific requirements included in individual contract delivery orders issued under the agreement. As described in the Federal Acquisition Regulation section 16.703(a), a basic ordering agreement is not a contract, rather it is a written understanding between the parties that contains terms and clauses applicable to future contracts (orders) issued under the agreement; as a result, specific key personnel requirements are identified in the individual contracts orders. Future procedures to identify the existence of special terms and provisions should include reviewing individual contract orders issued under basic ordering agreements. The contracting officer also advised us that the auditors can contact the procuring contracting officer for key personnel information.

Workpaper Documentation. The documentation of the audit procedures performed for the Laboratory's oversight of for-profit and vendor organizations and the internal control review and the compliance audit of special tests and provisions, cash management, and reporting requirements did not always provide sufficient detail for the reviewer to evaluate the adequacy of the audit procedures performed and the sufficiency of audit evidence. As a result, the auditors were required to provide additional verbal explanations and documentation from the financial statement audit to support the Federal audit.

Government auditing standards require that sufficient detail be included in the audit documentation to provide an experienced auditor who has no previous connection with the audit to ascertain from the documentation that the evidence supports the auditor's significant judgments and conclusions. Audit documentation should be appropriately detailed to provide a clear understanding of its purpose and source, and should be appropriately organized to provide a clear link to the findings, conclusions, and recommendations.

Finding C. Charles Stark Draper Laboratory Responsibility for Obtaining Audit Coverage in Accordance with Circular A-133 Requirements. The Laboratory did not ensure that the FY 2008 audit covered the entire research and development program cluster. As a result, $18 million of direct cost incurred on federal awards was not included in the Circular A-133 audit. The Laboratory's research and development cluster includes contracts that have externally imposed restrictions on auditor access to awards. Because of these restrictions, the auditors were unable to gain access to certain awards or perform other audit procedures, to assess the Laboratory's compliance with applicable federal requirements. Without the appropriate audit coverage awarding agencies cannot rely on the Circular A-133 audit as intended by the Single Audit Act to maintain accountability over spending or use the audit results to manage and monitor the entity's use of federal funds.

Circular A-133 assigns the auditee (the Laboratory) the responsibility for procuring auditors to perform the required annual audit of the financial statements and major federal programs. This includes ensuring that the auditors are aware of the objectives and scope of the audit and have the qualifications and technical abilities to perform an audit of the entire research and development program in accordance with Circular A-133 requirements.

Recommendations and Management Comments

1. **We recommend that the Director, Defense Contract Audit Agency:**

    a. **Revise the Defense Contract Audit Agency Circular A-133 standard audit program to include the procedures required by the American Institute of Certified Public Accountants Statements on Auditing Standards§316, "Consideration of Fraud in a Financial Statement Audit."**

    b. **Revise the DCAA Contract Audit Manual Chapter 13,"Audits at Educational Institutions, Nonprofit Organizations, and Federally**

Funded Research and Development Centers (FFRDCs),” to include guidance on performing fraud risk assessment procedures and reporting in the Circular A-133 audit report.

c. **Revise the Contract Audit Manual Chapter 13-703 “Coordinated Audit Approach” to provide additional guidance for relying on the work of non-auditors.**

d. **Review the A-133 audit program and the Contract Audit Manual, Chapter 13, to ensure the guidance conforms with the American Institute of Certified Public Accountants’ Statements on Auditing Standards 117 “Compliance Audits.”**

DCAA Comments. The Director, DCAA agreed to take the recommended actions. Management comments are included in their entirety at the end of this report.

2. **We recommend that the Branch Manager, Boston Branch Office, Defense Contract Audit Agency:**

   a. **Revise the FY 2008 Circular A-133 report single audit report, to include the circumstances surrounding the compliance opinion qualification in the schedule of findings and questioned costs.**

   b. **Forward the report to the Laboratory for submission to the Federal Audit Clearinghouse.**

   c. **Issue Cost Accounting Standards CAS 405 and 406 noncompliance reports to the Administrative Contracting Officer for appropriate actions.**

   d. **Strengthen existing or implement additional quality control procedures for Offices of Management and Budget Circular A-133 audits to ensure that future audits comply with auditing standards and Circular A-133 requirements for the planning, performance and documentation of the audit.**

   e. **Provide staff performing Circular A-133 audits formal training in the application and implementation of auditing standards in meeting Circular A-133 audit requirements.**

DCAA Comments. The Branch Manager, Boston Branch Office, DCAA agreed to take the recommended actions. Management comments are included in their entirety at the end of this report.

3. **We recommend that the Audit Partner, PricewaterhouseCoopers, LLP take the following actions in future single audits:**

    a. **Perform as necessary, appropriate procedures to identify the existence of special tests and provisions in the Laboratory's' contracts.**

    b. **Improve work paper documentation for the internal control review and compliance audit of the cash management, reporting, special tests and provisions and the Laboratory's oversight of for-profit and vendor organizations to ensure compliance with government auditing standards and Circular A-133 requirements.**

PwC Comments. The Audit Partner, PwC, agreed to take the recommended actions. Management comments are included in their entirety at the end of this report.

4. **We recommend that the Vice President and Treasurer, Charles Stark Draper Laboratory:**

    a. **Take future actions to ensure that the single audits cover all programs in the research and development cluster as required under OMB Circular A-133.**

    b. **Upon receipt of the revised report from DCAA, file the revised FY 2008 Circular A-133 reporting package and Data Collection Form with the Federal Audit Clearinghouse and notify the DoD Office of Inspector General upon completion.**

The Laboratory Comments. The Vice President for Finance and Administration and Treasurer, Charles Stark Draper Laboratory, Incorporated agreed to take the recommended actions. Management comments are included in their entirety at the end of this report.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Ms. Janet Stern at (703) 604-8750 (DSN 664-8750).

Randolph R. Stone
Deputy Inspector General
for Policy and Oversight

Appendix A. Quality Control Review Process

Background, Scope and Methodology

The Single Audit Act, Public Law 98-502, as amended, was enacted to improve the financial management of State and Local Governments, and nonprofit organizations by establishing a uniform set of auditing and reporting requirements for all Federal award recipients required to obtain a single audit. OMB Circular A-133 establishes policies that guide the implementation of the Single Audit Act, and provides an administrative foundation for uniform audit requirements of non-Federal entities administering Federal awards. Entities that expend $500,000 or more in a year are subject to the Single Audit Act and audit requirements in OMB Circular A-133. Therefore, they must have an annual single or program-specific audit performed under government auditing standards and submit a complete reporting package to the Federal Audit Clearinghouse.

We reviewed the PricewaterhouseCoopers, LLP and the Defense Contract Audit Agency, Boston Branch Office, FY 2008 single audit of The Charles Stark Draper Laboratory, Incorporated and the reporting package that was submitted to the Federal Audit Clearinghouse on March 31, 2009, using the 1999 edition of the "Uniform Quality Control Guide for the A-133 Audits" (the Guide). The Guide applies to any single audit that is subject to the requirements of OMB Circular A-133 and is the approved President's Council on Integrity and Efficiency [3]checklist used for performing quality control reviews. We performed the review from November 2009 through December 2010. The review focused on the following qualitative aspects of the single audit:

- Qualification of Auditors,
- 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.

[3] The President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency combined into the Council of the Inspectors General on Integrity and Efficiency in accordance with the Inspector General Reform Act of 2008.

Prior Quality Control Reviews

Since October 1, 2006, we performed one quality control review of DCAA and two of PricewaterhouseCoopers OMB Circular A-133 audits. All audits contained deficiencies resulting in findings and recommendations on audit planning/coordination, performance, reporting and documentation. Unrestricted IG DoD reports can be accessed at http://www.dodig.mil/audit/reports.

IG DoD Reports

IG DoD Report No.D-2011-6-002, "Report on Quality Control Review of the Deloitte & Touche and the Defense Contract Audit Agency FY 2008 Single Audit of the Aerospace Corporation, " October 29, 2010

IG DoD Report No.D-2008-6-003,"Report on Quality Control Review of FY 2006 Single Audit of Logistics Management Institute," March 19, 2008

IG DoD Report No. D-2008-6-002, "Quality Control Review of FY 2006 Single Audit of Syracuse Research Corporation," January 25, 2008

Appendix B. Compliance Requirements*

OMB Circular A-133 Compliance Requirements	Applicable		Not Applicable/ Not Material
	DCAA	PwC	
Activities Allowed/Unallowed	X		
Allowable Costs/Cost Principles	X		
Cash Management		X	
Davis-Bacon Act			X
Eligibility			X
Equipment and Real Property Management	X		
Matching, Level of Effort, Earmarking		X	
Period of Availability of Federal Funds	X		
Procurement, Suspension, and Debarment	X		
Program Income			X
Real Property Acquisition and Relocation Assistance			X
Reporting		X	
Subrecipient Monitoring			X
Special Tests and Provisions		X	

*This chart reflects the auditor's determination on compliance requirement applicability and materiality.

Defense Contract Audit Agency Comments

DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

OFFICE OF THE DIRECTOR

January 24, 2011

MEMORANDUM FOR DEPARTMENT OF DEFENSE, OFFICE OF INSPECTOR GENERAL, DEPUTY INSPECTOR GENERAL FOR POLICY AND OVERSIGHT

ATTENTION: Mr. Randolph R. Stone

SUBJECT: Response to Department of Defense Office of Inspector General (DoDIG) Draft Report, *Quality Control Review of the PricewaterhouseCoopers, LLP and Defense Contract Audit Agency FY 2008 Single Audit of the Charles Stark Draper Laboratory*, dated December 3, 2010 (Project No. D2010-DIP0AC-0040.000)

Thank you for the opportunity to respond to the subject draft report, *Quality Control Review of the PricewaterhouseCoopers, LLP and Defense Contract Audit Agency FY 2008 Single Audit of the Charles Stark Draper Laboratory*. The following are DCAA's comments and responses to each of the recommendations impacting DCAA.

DoDIG Recommendation 1.a: We recommend that the Director, Defense Contract Audit Agency, revise the Defense Contract Audit Agency Circular A-133 standard audit program to include the procedures required by the American Institute of Certified Public Accountants Statements on Auditing Standards§316, "Consideration of Fraud in a Financial Statement Audit."

DCAA Response: Concur. By March 2011, DCAA will revise the A-133 Standard Audit Program to include the procedures required by the American Institute of Certified Public Accountants Statements on Auditing Standards Section 316, "Consideration of Fraud in a Financial Statement Audit." Also, DCAA will add additional procedures on reporting identified fraud, in accordance with OMB Circular A-133 Section 510(a)(6) and GAGAS Section 5.10.

DoDIG Recommendation 1.b: We recommend that the Director, Defense Contract Audit Agency, revise the DCAA Contract Audit Manual Chapter 13,"Audits at Educational Institutions, Nonprofit Organizations, and Federally Funded Research and Development Centers (FFRDCs)," to include guidance on performing fraud risk assessment procedures and reporting the Circular A-133 audit report.

DCAA Response: Concur. By March 2011, DCAA will update the Contract Audit Manual, Chapter 13, to provide guidance on performing fraud risk assessment procedures and reporting in the A-133 audit report, in accordance with OMB Circular A-133 and AICPA Auditing Standard 316 requirements.

SUBJECT: Response to Department of Defense Office of Inspector General (DoDIG) Draft Report, *Quality Control Review of the PricewaterhouseCoopers, LLP and Defense Contract Audit Agency FY 2008 Single Audit of the Charles Stark Draper Laboratory*, dated December 3, 2010 (Project No. D2010-DIP0AC-0040.000)

DoDIG Recommendation 1.c: We recommend that the Director, Defense Contract Audit Agency, revise the Contract Audit Manual Chapter 13-703 "Coordinated Audit Approach" to provide additional guidance for relying on the work of non-auditors.

DCAA Response: Concur in principle. By June 2011, we will reassess whether it is correct to rely on the work of DCMA to accomplish the objectives of certain Circular A-133 compliance requirements. If our assessment deems the practice appropriate, we will update the Contract Audit Manual, Chapter 13 to provide additional guidance for relying on the work of non-auditors. Additional guidance will address the performance of steps necessary to place reliance on non-auditor work and discuss factors that would influence the extent of procedures, such as, the significance of the non-auditor work to the audit objectives and degree the work will be used to support the audit conclusions.

DoDIG Recommendation 1.d: We recommend that the Director, Defense Contract Audit Agency, review the A-133 audit program and the Contract Audit Manual, Chapter 13, to ensure the guidance conforms to the American Institute of Certified Public Accountants Statements on Auditing Standards, Statement on Auditing Standards 117 "Compliance Audits."

DCAA Response: Concur. By April 2011, DCAA will update the A-133 audit program and the Contract Audit Manual, Chapter 13, to ensure the guidance conforms to the American Institute of Certified Public Accountants Statements on Auditing Standards, Statement on Auditing Standards 117 "Compliance Audits."

DoDIG Recommendation 2.a: We recommend that the Branch Manager, Boston Branch Office, Defense Contract Audit Agency, revise the FY 2008 Circular A-133 report single audit report, to include the circumstances surrounding the compliance opinion qualification in the schedule of findings and questioned costs.

DCAA Response: Concur. The circumstances surrounding the compliance opinion qualification are fully explained in the Scope of Audit section (Pages 2 and 3) of our audit report. However, to address the DoDIG's concerns, we will revise our audit report to include the same information in the schedule of findings and questioned costs section by March 1, 2011.

DoDIG Recommendation 2.b: We recommend that the Branch Manager, Boston Branch Office, Defense Contract Audit Agency, forward the report to the Laboratory for submission to the Federal Audit Clearinghouse.

DCAA Response: Concur. The FAO will provide CSDL with a copy of the supplemental audit report for submission to the Federal Audit Clearinghouse by March 1, 2011.

SUBJECT: Response to Department of Defense Office of Inspector General (DoDIG) Draft Report, *Quality Control Review of the PricewaterhouseCoopers, LLP and Defense Contract Audit Agency FY 2008 Single Audit of the Charles Stark Draper Laboratory*, dated December 3, 2010 (Project No. D2010-DIP0AC-0040.000)

DoDIG Recommendation 2.c: We recommend that the Branch Manager, Boston Branch Office, Defense Contract Audit Agency, issue Cost Accounting Standards CAS 405 and 409 noncompliance reports to the Administrative Contracting Officer for appropriate actions.

DCAA Response: Concur.

CAS 405 (Concur): We have set up Assignment No. 02171-2011T19200001 to address the CAS 405 noncompliance. The CAS 405 noncompliance report will be issued to the ACO. Our anticipated report issuance date is March 1, 2011.

CAS 409 (Concur in principle): We re-evaluated this audit finding and concluded that it represents a CAS 406 noncompliance as opposed to a CAS 409 noncompliance. Therefore, we will be setting up a separate assignment to address this issue. The CAS 406 noncompliance report will be issued to the ACO. Our anticipated report issuance date is March 1, 2011. In addition, we will also revise the applicable audit report note in the FY 2008 A-133 audit report to reflect the CAS 406 noncompliance reference. This change will coincide with the response to Recommendation 2.b (see above).

DoDIG Recommendation 2.d: We recommend that the Branch Manager, Boston Branch Office, Defense Contract Audit Agency, strengthen existing or implement additional quality control procedures for Office of Management and Budget Circular A-133 audits to ensure that future audits comply with auditing standards and Circular A-133 requirements for the planning, performance and documentation of the audit.

DCAA Response: Concur. By March 1, 2011, the FAO will re-evaluate its current quality control procedures specifically as they relate to A-133 audits and determine what steps can be put into practice to strengthen existing or implement additional quality control procedures. This will ensure that future audits are planned, performed, documented, and reported in compliance with all applicable auditing standards and OMB Circular A-133 requirements. Our current quality control procedures (Northeastern Regional Instruction 7640.22, dated April 13, 2010) state that the Regional Audit Manager and a Regional or FAO Technical Specialist will review all OMB Circular A-133 reports and working papers prior to report issuance. The Technical Specialist will review the working papers for technical sufficiency (compliance with OMB Circular A-133 requirements, compliance with the audit program, scope of audit reflects level of risk assessment, and the working papers contain sufficient supporting documentation to support the audit conclusion), and document that review using the Technical Specialist Review Form contained in Regional Memorandum 97-RS-015, dated 25 February 1997.

DoDIG Recommendation 2.e: We recommend that the Branch Manager, Boston Branch Office, Defense Contract Audit Agency, provide staff performing Circular A-133 audits with formal training in the application and implementation of auditing standards in meeting Circular A-133 audit requirements.

SUBJECT: Response to Department of Defense Office of Inspector General (DoDIG) Draft Report, *Quality Control Review of the PricewaterhouseCoopers, LLP and Defense Contract Audit Agency FY 2008 Single Audit of the Charles Stark Draper Laboratory*, dated December 3, 2010 (Project No. D2010-DIP0AC-0040.000)

DCAA Response: Concur. By March 1, 2011, the FAO will ensure that Auditors and Supervisors performing OMB Circular A-133 compliance audits have training in the application and implementation of auditing standards in meeting Circular A-133 audit requirements in accordance with GAGAS 3.40 and DCAA MRD 08-PPD-031(R), dated October 2, 2008. Recently, the entire FAO staff completed formal training in GAGAS, which was developed by the Defense Contract Audit Institute (DCAA's training facility). Additionally, the FAO will present the specific DoDIG findings to auditors performing A-133 audits by March 1, 2011.

Please see the enclosed Northeastern Region, DCAA, Responses to the DoDIG Draft Report.

DoDIG Other Matters of Interest: The DCAA Contract Audit Manual, Chapter 13, Audits at Educational Institutions, Nonprofit Organizations, and Federally Funded Research and Development Centers, Section 700, "OMB Circular A-133 Audits and Reports," should be updated to reflect the current terminology on communicating matters related to internal control, in accordance with OMB Circular A-133 reporting requirements. Specifically, effective with the June 26, 2007 Federal Register changes to OMB Circular A-133, the term "reportable condition" has been replaced with "significant deficiency" to conform with current auditing standards.

DCAA Response to DoDIG Other Matters of Interest: DCAA revised the Contract Audit Manual, Chapter 13, Section 700 for the change in terminology on communicating matters related to internal control, in accordance with OMB Circular A-133 reporting requirements.

Questions regarding this memorandum should be directed to Ms. Esther M. Fischer, Chief, Policy Programs Division at (703) 767-2297.

Patrick J. Fitzgerald
Director

Enclosure:
DCAA Northeastern Region Response

4

Defense Contract Audit Agency, Boston Branch Office, Northeastern Region Comments

NORTHEASTERN REGION
DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
59 LOWES WAY, SUITE 300
LOWELL, MASSACHUSETTS 01851-5150

IN REPLY REFER TO:
RST-2 730.1

January 24, 2011

MEMORANDUM FOR THE DIRECTOR, DCAA

ATTENTION: PPD (Ms. Esther Fischer)

SUBJECT: Response to DoDIG Preliminary Review Results Report on Quality Control Review of the PricewaterhouseCoopers, LLP and Defense Contract Audit Agency Fiscal Year Single Audit of Charles Stark Draper Laboratory (CSDL), Inc. (Project No. D2010-DIPA0AC-0040.000)

We have reviewed the subject DoDIG draft report findings and recommendations regarding the DCAA Fiscal Year (FY) 2008 Single Audit of Charles Stark Draper Laboratory, Inc. (CSDL). The DoDIG's overall conclusion was that DCAA did not comply with Circular A-133 reporting requirements. Our response to the DoDIG findings and recommendations as they relate to the Boston Branch Office are as follows:

DoDIG Recommendation 2.a: *"We recommend that the Branch Manager, Boston Branch Office, Defense Contract Audit Agency, revise the FY 2008 Circular A-133 report single audit report, to include the circumstances surrounding the compliance opinion qualification in the schedule of findings and questioned costs".*

DCAA Response: Concur. The circumstances surrounding the compliance opinion qualification are fully explained in the Scope of Audit section (Pages 2 and 3) of our audit report. However, to address the DoDIG's concerns, we will revise our audit report to include the same information in the schedule of findings and questioned costs section by March 1, 2011.

DoDIG Recommendation 2.b: *"We recommend that the Branch Manager, Boston Branch Office, Defense Contract Audit Agency, forward the report to CSDL for submission to the Federal Audit Clearinghouse".*

DCAA Response: Concur. The FAO will provide CSDL with a copy of the supplemental audit report for submission to the Federal Audit Clearinghouse by March 1, 2011.

DoDIG Recommendation 2.c: *"We recommend that the Branch Manager, Boston Branch Office, Defense Contract Audit Agency, issue Cost Accounting Standards CAS 405 and CAS 409 noncompliance reports to the Administrative Contracting Officer (ACO) for appropriate actions."*

RST-2 730.1

January 24, 2011

SUBJECT: Response to DoDIG Preliminary Review Results Report on Quality Control Review of the PricewaterhouseCoopers, LLP and Defense Contract Audit Agency Fiscal Year Single Audit of Charles Stark Draper Laboratory (CSDL), Inc. (Project No. D2010-DIPA0AC-0040.000)

DCAA Response: Concur.

CAS 405 (Concur): We have set up Assignment No. 02171-2011T19200001 to address the CAS 405 noncompliance. The CAS 405 noncompliance report will be issued to the ACO. Our anticipated report issuance date is March 1, 2011.

CAS 409 (Concur): We re-evaluated this audit finding and concluded that it represents a CAS 406 noncompliance as opposed to a CAS 409 noncompliance. Therefore, we will be setting up a separate assignment to address this issue. The CAS 406 noncompliance report will be issued to the ACO. Our anticipated report issuance date is March 1, 2011. In addition, we will also revise the applicable audit report note in the FY 2008 A-133 audit report to reflect the CAS 406 noncompliance reference. This change will coincide with the response to Recommendation 2.b (see above).

DoDIG Recommendation 2.d: "*We recommend that the Branch Manager, Boston Branch Office, Defense Contract Audit Agency, strengthen existing or implement additional quality control procedures for Offices of Management and Budget Circular A-133 audits to ensure that future audits comply with auditing standards and Circular A-133 requirements for the planning, performance and documentation of the audit*".

DCAA Response: Concur. By March 1, 2011, the FAO will re-evaluate its current quality control procedures specifically as they relate to A-133 audits and determine what steps can be put into practice to strengthen existing or implement additional quality control procedures. This will ensure that future audits are planned, performed, documented, and reported in compliance with all applicable auditing standards and OMB Circular A-133 requirements. Our current quality control procedures (Northeastern Regional Instruction 7640.22, dated April 13, 2010) state that the Regional Audit Manager and a Regional or FAO Technical Specialist will review all OMB Circular A-133 reports and working papers prior to report issuance. The Technical Specialist will review the working papers for technical sufficiency (compliance with OMB Circular A-133 requirements, compliance with the audit program, scope of audit reflects level of risk assessment, and the working papers contain sufficient supporting documentation to support the audit conclusion), and document that review using the Technical Specialist Review Form contained in Regional Memorandum 97-RS-015, dated 25 February 1997.

DoDIG Recommendation 2.e: "*We recommend that the Branch Manager, Boston Branch Office, Defense Contract Audit Agency, provide staff performing Circular A-133 audits formal training in the application and implementation of auditing standards in meeting Circular A-133 audit requirements*".

2

RST-2 730.1 January 24, 2011

SUBJECT: Response to DoDIG Preliminary Review Results Report on Quality Control Review of the PricewaterhouseCoopers, LLP and Defense Contract Audit Agency Fiscal Year Single Audit of Charles Stark Draper Laboratory (CSDL), Inc. (Project No. D2010-DIPA0AC-0040.000)

DCAA Response: Concur. The FAO will ensure that Auditors and Supervisors performing OMB Circular A-133 compliance audits have training in the application and implementation of auditing standards in meeting Circular A-133 audit requirements in accordance with GAGAS 3.40 and DCAA MRD 08-PPD-031(R), dated October 2, 2008, by March 1, 2011. Recently, the entire FAO staff completed formal training in GAGAS, which was developed by the Defense Contract Audit Institute (DCAA's training facility). Additionally, the FAO will present the specific DoDIG findings to Auditors performing A-133 audits by March 1, 2011.

Questions regarding this memorandum should be directed to Mr. John F. Gay, Branch Manager, Boston Branch Office, at (617) 753-3410.

Ronald C. Meldonian
Regional Director

Enclosure, 1

Draft Report-QCR of the Pricewaterhouse

Copy furnished:
RD/DRD-2
RQ-2
RAMC-2
RS-2
2171

3

PricewaterhouseCoopers, LLP Comments

pwc

February 4, 2011

Mr. Randolph Stone
Assistant Inspector General
Department of Defense Inspector General
400 Army Navy Drive (Room 1030)
Arlington, VA 22202-4704

Dear Mr. Stone:

Thank you for providing a draft of the proposed report, *Report on Quality Control Review of the PricewaterhouseCoopers LLP and Defense Contract Audit Agency FY2008 Single Audit of Charles Stark Draper Laboratory, (Project No. D2009-DIP0AC-0040)* ("The Report") related to our FY2008 Single Audit of Charles Stark Draper Laboratory. We have reviewed the Department of Defense draft recommendations based on the quality control review conducted by Felicia Fuller while onsite at our Boston office during the week of November 9, 2009.

Review Results

Review Results. The DoD Office of Inspector General (OIG) indicated that the PricewaterhouseCoopers audit of the financial statements and the research and development program cluster generally met auditing standards and Circular A-133 requirements. However, OIG identified a deficiency in the review of special tests and provisions and the sufficiency of audit documentation that needs to be corrected in future audits (Finding B).

PwC Response. See responses to individual comments below.

Finding B. PricewaterhouseCoopers' Performance and Documentation of the Federal Program Audit. The procedures performed by the PricewaterhouseCoopers auditor were not sufficient to identify the existence of special tests and provisions in the Laboratory's contracts. As a result, they did not perform the required review and testing of internal control over and compliance with provisions for key personnel. In addition, the documentation of the federal program audit needs to be improved in future single audits.

PwC Response. See responses to individual comments below.

Special Tests and Provisions Compliance Testing

Finding: Special Tests and Provisions Compliance Testing. The auditors reviewed a sample of 10 contracts and concluded that there were no special tests and provision requirements for those awards. During the OIG site visit, they re-tested five of the ten contracts to assess the adequacy of the auditor's conclusions and determined that three of the five contracts contained key personnel requirements. OIG discussed their findings with the auditor and were advised that the contracts reviewed contained the "key personnel" clause but key personnel were not identified so the auditor concluded that the clause was not exercised.

PricewaterhouseCoopers LLP, 125 High Street, Boston, MA 02110
T: (617) 530 5000, F: (617) 530 5001, www.pwc.com/us

Because there was a discrepancy between the results of the OIG review and the auditor's review, OIG contacted the Laboratory contracting officer. Based on OIG's discussions with the contracting officer's representative, they determined that auditor's conclusions were based on a review of the general provisions in basic ordering agreements rather than on the specific requirements included in individual contract delivery orders issued under the agreement. As described in FAR 16.703(a), a basic ordering agreement is not a contract, rather it is a written understanding between the parties that contains terms and clauses applicable to future contracts (orders) issued under the agreement; as a result specific key personnel requirements are identified in the individual contracts orders. Future procedures to identify the existence of special terms and provisions conditions should include reviewing individual contract orders issued under basic ordering agreements. The contracting officer also advised OIG that the auditors can contact the procuring contracting officer for key personnel information.

Recommendation: We recommend that the Audit Partner, PricewaterhouseCoopers LLP take the following actions in future single audits:

a. Perform as necessary, appropriate procedures to identify the existence of special tests and provisions in the Laboratory's' contracts.

PwC Response. The audit team selected a sample of ten contracts from the files of Charles Stark Draper Laboratory and were provided with copies of the basic ordering agreements. In addition, we inquired of Charles Stark Draper Laboratory employees regarding the existence of any key personnel requirements or other special tests and provisions. We were informed there were no other requirements. Through these procedures, no special tests and provisions were identified.

In future audits, we will specifically request individual contract delivery orders to identify the existence of any special tests and provisions compliance requirements.

Work paper Documentation

Finding: Work paper Documentation OIG indicated that the documentation on the internal control review and the compliance audit of special tests and provisions, cash management, subrecipient monitoring and reporting requirements did not always provide sufficient detail for the reviewer to evaluate the adequacy of the performed audit procedures and the sufficiency of audit evidence. As a result, the auditors were required to provide OIG with additional verbal explanations and documentation from the financial statement audit to support the audit conclusions. Government auditing standards requires that sufficient detail be included in the audit documentation to provide an experienced auditor who has no previous connection with the audit to ascertain from the documentation that the evidence supports the auditor's significant judgments and conclusions. Audit documentations should be appropriately detailed to provide a clear understanding of its purpose and source, and should be appropriately organized to provide a clear link to the findings, conclusions, and recommendations.

Recommendation: We recommend that the Audit Partner, PricewaterhouseCoopers LLP take the following actions in future single audits:

b. Improve work paper documentation for the internal control review and compliance audit of the cash management, subrecipient monitoring, reporting and special tests and provisions requirement to ensure compliance with government auditing standards and Circular A-133.

PwC Response. We conducted an audit of Charles Stark Draper Laboratory which consisted of a financial statement audit and an A-133 audit, and our audit procedures and conclusions were documented in two electronic databases. We believe that the two databases, taken as a whole, adequately document the internal control review and the compliance audit of special tests and provisions, cash management, subrecipient monitoring, and reporting requirements. However, we do understand the importance of documentation to minimize the need for verbal explanation.

In future audits, we will enhance our documentation in each of these areas to more clearly document the procedures performed. We will also enhance the cross-referencing between the two databases to more clearly demonstrate the linkage between the A-133 internal control and compliance testing requirements and the audit work performed.

Thank you for your consideration of our response letter.
Sincerely,

PricewaterhouseCoopers LLP

By: Robert J. Spear
Engagement Partner

The Charles Stark Draper Laboratory Comments

Elizabeth Mora
Vice President for Finance & Administration and Treasurer

December 9, 2010

Mr. Randolph R. Stone
Deputy Inspector General for Policy Oversight
Department of Defense
400 Army Navy Drive
Arlington, VA 22202-4704

Subject: Report on Quality Control Review of the PricewaterhouseCoopers, L.L.P. and Defense Contract Audit Agency FY 2008 Single Audit of Charles Stark Draper Laboratory (Project No. D2009-DIPOAC-0400)

Dear Mr. Stone:

The Charles Stark Draper Laboratory ("the Laboratory") is pleased to respond to the two recommendations contained in the Draft Report letter dated December 3, 2010.

DoD Office of Inspector General Recommendation

1. We recommend that the Vice President and Treasurer, Charles Stark Draper Laboratory:
   a. Take future actions to ensure that the single audit covers all programs in the research and development cluster as required under OMB Circular A-133.
   b. Upon receipt of the revised report from DCAA, file the revised FY 2008 Circular A-133 reporting package and Data Collection Form with the Federal Audit Clearinghouse and notify the DoD Office of Inspector General upon completion.

Charles Stark Draper Laboratory Response

a. The Laboratory has taken steps in connection with the audit of our FY 2010 single audit required by OMB Circular A-133 to ensure that all programs in the research and development cluster are audited.
b. The Laboratory will file a revised FY 2008 Circular A-133 reporting package to the Federal Audit Clearinghouse upon receipt of a revised DCAA report. Your office will be notified when the revised report is filed.

Sincerely yours,

Elizabeth Mora
Vice President for Finance & Administration
and Treasurer

The Charles Stark Draper Laboratory, Inc.
555 Technology Square, Cambridge, Massachusetts 02139-3563
Telephone: 617-258-4308 Fax: 617-258-2626
Internet: emora@draper.com

Inspector General
Department of Defense