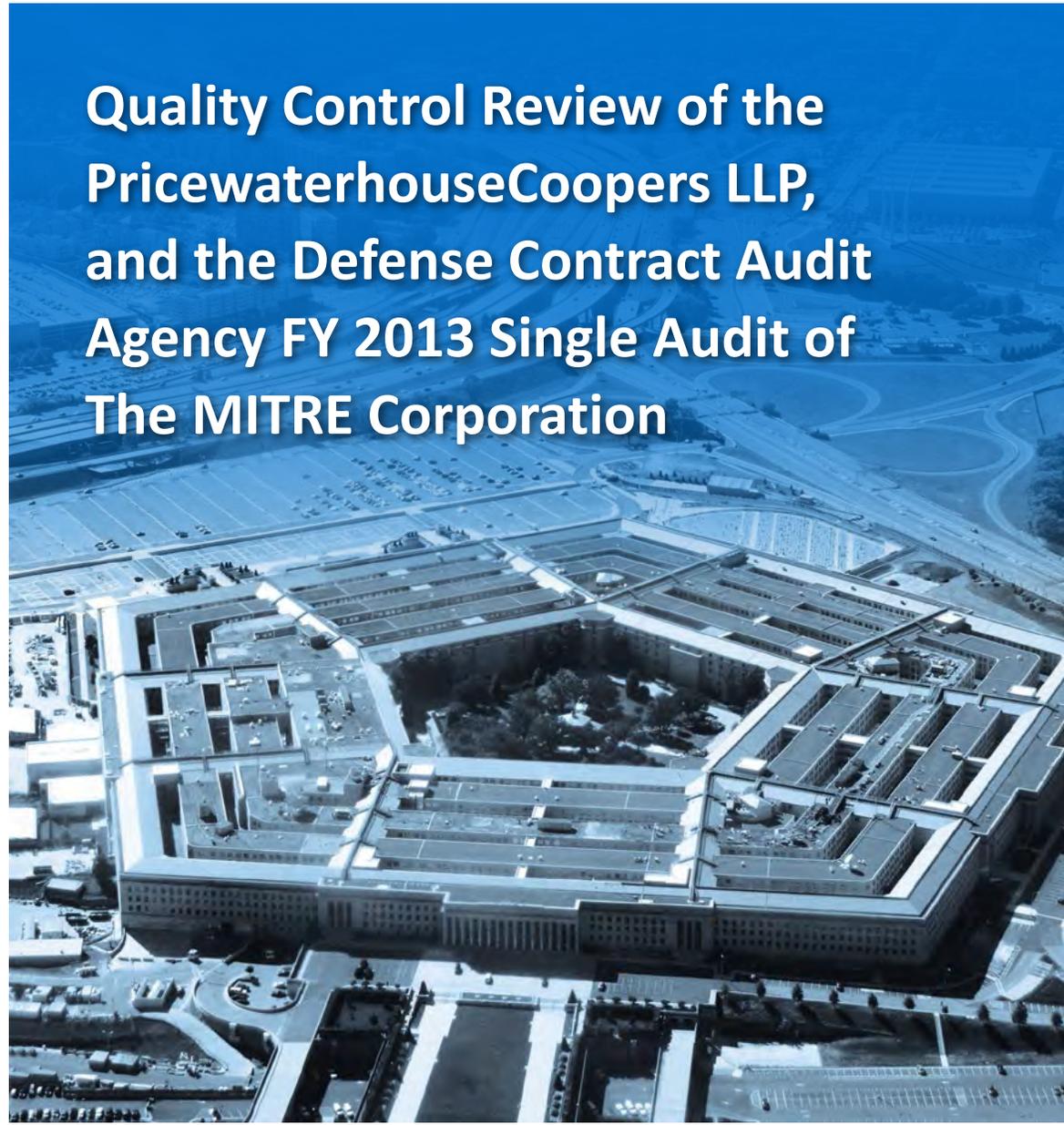




INSPECTOR GENERAL

U.S. Department of Defense

APRIL 30, 2015



Quality Control Review of the PricewaterhouseCoopers LLP, and the Defense Contract Audit Agency FY 2013 Single Audit of The MITRE Corporation

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**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE**
4800 MARK CENTER DRIVE
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April 30, 2015

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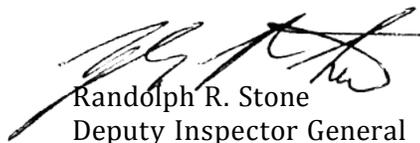
SUBJECT: Quality Control Review of the PricewaterhouseCoopers LLP, and the Defense Contract Audit Agency FY 2013 Single Audit of The MITRE Corporation (Report No. DODIG-2015-112)

We are providing this report for your information and use. We considered management's comments on a draft of this report when preparing the final report. The management's comments were responsive; therefore, additional comments are not required.

As the cognizant Federal agency for the MITRE Corporation, we performed a review of the PricewaterhouseCoopers LLP, and Defense Contract Audit Agency single audit report and supporting audit documentation for the year ended September 30, 2013. The purpose of our review was to determine whether the single audit was conducted in accordance with auditing standards and the requirements of Office of Management and Budget Circular (OMB) A-133, "Audits of States, Local Governments, and Non-Profit Organizations." We conducted this review in accordance with the Council of Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Inspection and Evaluation.

The FY 2013 audit of the MITRE Corporation generally met the auditing standards and OMB Circular A-133 requirements. However, the required data collection form was not accurately completed and must be resubmitted to the Federal Audit Clearinghouse. PricewaterhouseCoopers LLP agreed to take corrective action in response to our recommendation.

We appreciate the courtesies extended to our staff. For additional information on this report, please contact Ms. Carolyn R. Davis at (703) 604-8877 (DSN 664-8877).


Randolph R. Stone
Deputy Inspector General
Policy and Oversight

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Introduction

Objective

As the cognizant Federal agency¹ for the MITRE Corporation (MITRE), we performed a quality control review of the PricewaterhouseCoopers LLP, (PwC) and Defense Contract Audit Agency (DCAA) single audit report and supporting audit documentation for the audit period of October 1, 2012, through September 30, 2013. Our objective was to determine whether the single audit was conducted in accordance with generally accepted government auditing standards, the American Institute of Certified Public Accountants (AICPA) Statements on Auditing Standards, and the requirements of Office of Management and Budget (OMB) Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations.” Appendix A contains additional details on our scope and methodology; and identifies prior quality control reviews. Appendix B lists the compliance requirements that PwC and DCAA determined to be applicable to the FY 2013 audit.

Background

MITRE Corporation

MITRE is a private, not-for-profit, corporation that operates six Federally Funded Research and Development Centers (FFRDCs),² which assist Federal agencies with research and development, study and analysis, and/or systems engineering and integration. The FFRDCs are sponsored by the Department of Defense, the Federal Aviation Administration, the Internal Revenue Service, the Department of Veterans Affairs, the Department of Homeland Security, the Administrative Office of the U.S. Courts, and the Centers for Medicare and Medicaid Services. During FY 2013, MITRE expended approximately \$1.4 billion in Federal awards, under one Federal program, the research and development cluster. Of the \$1.4 billion, approximately \$0.8 billion was expended for Department of Defense programs. MITRE engaged PwC and DCAA to perform the FY 2013 single audit.

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

² A federally funded research and development center is an activity sponsored under a broad charter by a Government agency for the purpose of performing, analyzing, integrating, supporting, and managing basic or applied research and development, and that receives 70 percent or more of its financial support from the Government.

PricewaterhouseCoopers LLP

PwC, a member firm of PricewaterhouseCoopers International Limited, provides a wide array of business services, including audit and assurance, business and Government consulting, and tax preparation and planning. PwC maintains its own system of internal quality control over its accounting and auditing practices as required by the AICPA. PwC's office in McLean, Virginia, performed MITRE's single audit for FY 2013 in coordination with DCAA.

Defense Contract Audit Agency

DCAA operates under the Under Secretary of Defense (Comptroller)/Chief Financial Officer. DCAA maintains five regional offices, a field detachment division (for audits involving DoD classified programs), and a headquarters office in order to provide audit and financial advisory services to the DoD and other Federal agencies responsible for acquisition and contract administration. DCAA's Northern New England Branch Office and a field detachment office performed MITRE's single audit for FY 2013 in coordination with PwC.

Single Audit

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

Review Results

MITRE complied with OMB Circular A-133 reporting requirements. PwC and DCAA generally met the auditing standards and OMB Circular A-133 requirements. However, PwC provided inaccurate and incomplete information within the data collection form submitted to the Federal Audit Clearinghouse. As a result, Federal agencies may not have been aware of pertinent information affecting their programs.

Management Comments and DoDIG Response

PricewaterhouseCoopers LLP agreed to take corrective action in response to our recommendation. Management comments were responsive and no additional comments are needed. Management comments are included in their entirety at the end of this report

Finding

Data Collection Form

PwC did not accurately prepare the data collection form (the Form) required by OMB Circular A-133. As a result, the Form submitted to the Federal Audit Clearinghouse did not contain complete and accurate information regarding the results of the single audit. PwC needs to properly prepare the Form and coordinate with MITRE to resubmit the Form to the Federal Audit Clearinghouse. An accurate data collection form is necessary to allow Federal agencies to use the form in their monitoring of awards provided to MITRE.

Preparation of Data Collection Form

PwC did not accurately complete the Form in accordance with OMB Circular A-133 and form instructions. The Form did not correctly identify the number of findings impacting the major Federal program and did not identify those findings reported as significant deficiencies in internal control.

OMB Circular A-133 requires non-Federal entities to submit their single audit reporting package and the Form to the Federal Audit Clearinghouse. The Form provides information about the auditee, its Federal programs, and the result of the audit. The Form instructions state the auditor should identify the number of findings impacting the Federal program and whether the finding reported is considered a material weakness or significant deficiency.

PwC was responsible for preparing the Form and incorporating the results of the DCAA audit of compliance with major Federal programs. The DCAA audit report was issued on June 26, 2014, and disclosed 20 audit findings, which included approximately \$16.4 million in questioned cost, and four significant deficiencies in internal control over compliance with Federal requirements. The Form was certified and submitted to the Federal Audit Clearinghouse on June 27, 2014.

PwC included audit findings by reference number and indicated whether there were associated questioned costs corresponding to the Federal program. However, PwC did not indicate the correct number of audit findings impacting the Federal program and did not disclose the significant deficiencies in internal control over compliance with Federal requirements that were identified in DCAA's audit report. We believe the errors occurred due to recent changes made to the Form and time constraints between receipt of DCAA's audit report and the report submission deadline.

It is important that the Form accurately summarize the results of the single audit so that users of the form are aware of the number of findings and the impact of those findings in monitoring Federal awards. As a result, PwC should correct the Form to correctly identify the correct number of audit findings on the Federal program and the findings that were identified as significant deficiencies in internal control.

Recommendation, Management Comments, and Our Response

Recommendation

We recommend that the Audit Partner, PricewaterhouseCoopers LLP, promptly correct MITRE's FY 2013 data collection form and coordinate with MITRE for the resubmission of the Form to the Federal Audit Clearinghouse.

PricewaterhouseCoopers LLP Comments

The Audit Partner, PricewaterhouseCoopers LLP, agreed to take the recommended action.

Our Response

PricewaterhouseCoopers LLP comments are responsive to our recommendation. No additional comments are needed.

Appendix A

Scope and Methodology

We reviewed the PwC and DCAA FY 2013 single audit of MITRE submitted to the Federal Audit Clearinghouse on June 27, 2014, using the 2010 edition of the Council of Inspectors General on Integrity and Efficiency (CIGIE) “Guide for Quality Control Reviews of OMB Circular A-133 Audits.” CIGIE approved this guide for performing quality control reviews of single audits. We conducted our review from August 2014 through March 2015 in accordance with the Quality Standards for Inspection and Evaluation. 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 for the Research and Development Cluster,
- Schedule of Expenditures of Federal Awards, and
- Data Collection Form.

Use of Computer-Processed Data

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

Prior Coverage

Since October 1, 2009, we have performed the following quality control reviews related to PwC’s or DCAA’s OMB Circular A-133 audits. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

- DoD IG Report No. DODIG-2014-078, “Quality Control Review of the PricewaterhouseCoopers, LLP FY 2012 Single Audit of Massachusetts Institute of Technology,” June 5, 2014
- DoD IG Report No. DODIG-2013-125, “Quality Control Review of the PricewaterhouseCoopers, LLP FY 2011 Single Audit of SRI International,” August 29, 2013

- DoD IG Report No. DODIG-2013-048, “Quality Control Review of the PricewaterhouseCoopers, LLP and the Defense Contract Audit Agency FY 2010 Single Audit of the Institute for Defense Analyses,” February 20, 2013
- DoD IG Report No. D-2011-6-004, “Report on Quality Control Review of the PricewaterhouseCoopers, LLP and the Defense Contract Audit Agency FY 2008 Single Audit of the Charles Stark Draper Laboratory, Incorporated,” February 28, 2011
- DoDIG Report No. D-2011-6-002, “Report on Quality Control Review of the Deloitte and Touche, LLP and Defense Contract Audit Agency FY 2008 Single Audit of The Aerospace Corporation,” October 29, 2010

Appendix B

Compliance Requirements

Table B. Compliance Requirements PwC and DCAA Determined Were Applicable to the Research and Development Cluster

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

Management Comments

PricewaterhouseCoopers LLP



April 17, 2015

Randolph R. Stone
Deputy Inspector General
Policy and Oversight

Inspector General
Department of Defense
4800 Mark Center Drive
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Subject: Quality Control Review of the PricewaterhouseCoopers LLP, and the Defense Contract Audit Agency FY 2013 Single Audit of The MITRE Corporation
(Project No. D2014-DAPOSA-0216.000)

PwC agrees that, for the reasons cited by the Inspector General, the referred Data Collection Form did not include in items 6 and 7 all of the DCAA findings in separate line items. The Data Collection Form will be revised to include the missing information and it will be refiled.

The Data Collection Form will be revised and submitted by the close of business on May 15, 2015.

A handwritten signature in black ink that reads 'Sandra Aresti'.

Sandra Aresti, Engagement Partner
PricewaterhouseCoopers LLP

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Acronyms and Abbreviations

- AICPA** American Institute of Certified Public Accountants
- CIGIE** Council of Inspectors General on Integrity and Efficiency
- DCAA** Defense Contract Audit Agency
- FFRDC** Federally Funded Research and Development Centers
- MITRE** The MITRE Corporation
- OMB** Office of Management and Budget
- PwC** PricewaterhouseCoopers LLP

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

The Whistleblower Protection Enhancement Act of 2012 requires the Inspector General to designate a Whistleblower Protection Ombudsman to educate agency employees about prohibitions on retaliation, and rights and remedies against retaliation for protected disclosures. The designated ombudsman is the DoD Hotline Director. For more information on your rights and remedies against retaliation, visit www.dodig.mil/programs/whistleblower.

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

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