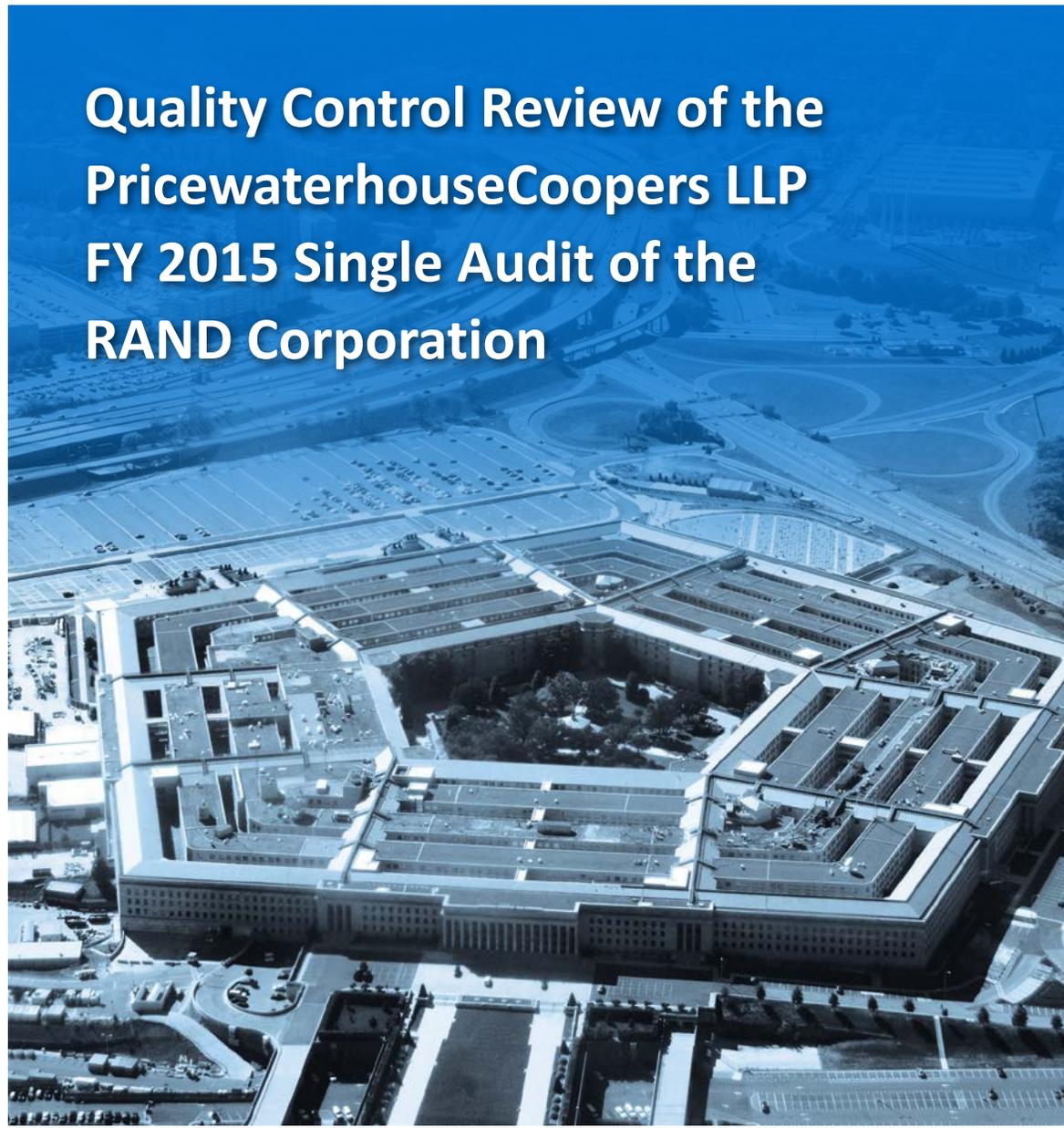




INSPECTOR GENERAL

U.S. Department of Defense

MAY 19, 2017



Quality Control Review of the PricewaterhouseCoopers LLP FY 2015 Single Audit of the RAND Corporation

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4800 MARK CENTER DRIVE
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May 19, 2017

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The RAND Corporation

**SUBJECT: Quality Control Review of the PricewaterhouseCoopers LLP FY 2015 Single Audit
of the RAND Corporation (Report No. DODIG-2017-084)**

We are providing this report for your information and use. As the Department of Defense is the cognizant Federal agency for the RAND Corporation, we performed a quality control review of the PricewaterhouseCoopers LLP single audit report and supporting audit documentation for the year ended September 27, 2015.

The purpose of our review was to determine whether the single audit was conducted in accordance with auditing standards and the requirements of the Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." We conducted this review in accordance with the "Quality Standards for Inspection and Evaluation," published in January 2012 by the Council of the Inspectors General on Integrity and Efficiency.

PricewaterhouseCoopers LLP complied with the auditing standards and OMB Circular A-133 requirements in performing the RAND Corporation FY 2015 single audit. In addition, the RAND Corporation complied with OMB Circular A-133 reporting requirements.

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


Randolph R. Stone
Deputy Inspector General
Policy and Oversight

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Introduction and Review Results

Objective

As the Department of Defense is the cognizant Federal agency¹ for the RAND Corporation, we performed a quality control review of the PricewaterhouseCoopers LLP (PwC) single audit report and supporting audit documentation for the audit period of September 29, 2014, through September 27, 2015. Our objective was to determine whether the single audit was conducted in accordance with generally accepted government auditing standards, generally accepted auditing standards, and the requirements of the 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 coverage. Appendix B lists the compliance requirements that PwC determined to be applicable to the audit period ended September 27, 2015.

Background

The RAND Corporation

The RAND Corporation (RAND) is a nonprofit, tax-exempt corporation performing research and analysis to improve public policy and decision making on issues involving energy, education, health, justice, the environment, and international and military affairs. RAND is funded by government agencies, foundations, and private-sector firms primarily through contracts, grants, and contributions. During FY 2015, RAND expended \$236 million in Federal awards, of which, RAND expended \$235 million on one program, the research and development cluster.² Of the \$235 million, \$146 million was expended for Department of Defense awards. RAND engaged PwC to perform the FY 2015 single audit.

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 American Institute of Certified Public Accountants. PwC's office in Los Angeles, California, performed RAND's FY 2015 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 The research and development cluster is made up of a variety of research and development activities performed under different types of funding agreements, such as grants, cooperative agreements, and contracts that have similar compliance requirements.

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, these entities must have an annual single or program-specific audit performed in accordance with generally accepted government auditing standards and submit a complete reporting package to the Federal Audit Clearinghouse.³ The single audit includes an audit of the non-Federal entity’s financial statements and Federal awards as described in OMB Circular A-133.

Review Results

RAND complied with OMB Circular A-133 requirements in preparing the schedule of expenditures of Federal awards, the summary schedule of prior audit findings, and the corrective action plan for the FY 2015 single audit. PwC complied with the auditing standards and OMB Circular A-133 requirements in performing the RAND Corporation FY 2015 single audit.

³ The Federal Audit Clearinghouse is designated by the OMB as the repository of record for single audit reports and maintains a database of completed audits, provides appropriate information to Federal agencies, and performs follow-up with known auditees that have not submitted the required information.

Appendix A

Scope and Methodology

We conducted our review from October 2016 through April 2017 in accordance with the “Quality Standards for Inspection and Evaluation,” published in January 2012 by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). Those standards require that we plan and perform our review to obtain sufficient appropriate evidence to provide a reasonable basis for our findings, conclusions, and recommendations based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings, conclusions, and recommendations.

We reviewed the FY 2015 single audit of RAND performed by PwC. The Federal Audit Clearinghouse received the single audit report on June 27, 2016. We used the 2015 edition of the CIGIE “Guide for Quality Control Reviews of OMB Circular A-133 Audits.” The review focused on the following qualitative aspects of the single audit:

- Qualification of Auditors,
- Auditor Independence,
- Due Professional Care,
- Planning and Supervision,
- Audit Follow-Up,
- Internal Control and Compliance Testing,
- Schedule of Expenditures of Federal Awards, and
- Data Collection Form.

Use of Computer-Processed Data

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

Prior Coverage

During the last 5 years, the Department of Defense Office of Inspector General (DoD OIG) issued five quality control reviews related to PwC’s OMB Circular A-133 audits. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>. PwC took adequate corrective actions in response to all reported findings.

DoD OIG

Report No. DODIG-2016-034, "Quality Control Review of the PricewaterhouseCoopers LLP FY 2014 Single Audit of Carnegie Mellon University," December 17, 2015

PwC did not adequately perform and document audit procedures for their review of the cash management requirement.

Report No. DODIG-2015-112, "Quality Control Review of the PricewaterhouseCoopers LLP, and the Defense Contract Audit Agency FY 2013 Single Audit of the MITRE Corporation," April 30, 2015

PwC failed to properly complete the data collection form because it did not accurately identify information on reported audit findings.

Report No. DODIG-2014-078, "Quality Control Review of the PricewaterhouseCoopers, LLP FY 2012 Single Audit of Massachusetts Institute of Technology," June 5, 2014

PwC needed to improve audit documentation on audit sampling and the audit procedures performed and evidence obtained to support conclusions on allowable costs/cost principles, special tests and provisions, subrecipient monitoring, and reporting compliance requirements.

Report No. DODIG-2013-125, "Quality Control Review of the PricewaterhouseCoopers, LLP FY 2011 Single Audit of SRI International," August 29, 2013

PwC did not document adequate audit procedures to support conclusions on internal control and compliance with special tests and provisions or adequately document conclusions on determining whether a compliance requirement was applicable.

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

None of the deficiencies noted related to audit work performed by PwC.

Appendix B

Compliance Requirements

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

OMB Circular A-133 Compliance Requirements	Applicable	Not Applicable/Not Material
Activities Allowed or Unallowed	X	
Allowable Costs/Cost Principles	X	
Cash Management	X	
Eligibility		X
Equipment and Real Property Management		X
Matching, Level of Effort, Earmarking		X
Period of Performance	X	
Procurement, Suspension, and Debarment	X	
Program Income		X
Reporting	X	
Subrecipient Monitoring	X	
Special Tests and Provisions	X	

Acronyms and Abbreviations

CIGIE Council of the Inspectors General on Integrity and Efficiency

OMB Office of Management and Budget

PwC PricewaterhouseCoopers LLP

RAND The RAND Corporation

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

The Whistleblower Protection Ombudsman's role is to educate agency employees about prohibitions on retaliation and employees' rights and remedies available for reprisal. The DoD Hotline Director is the designated ombudsman. For more information, please visit the Whistleblower webpage at www.dodig.mil/programs/whistleblower.

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