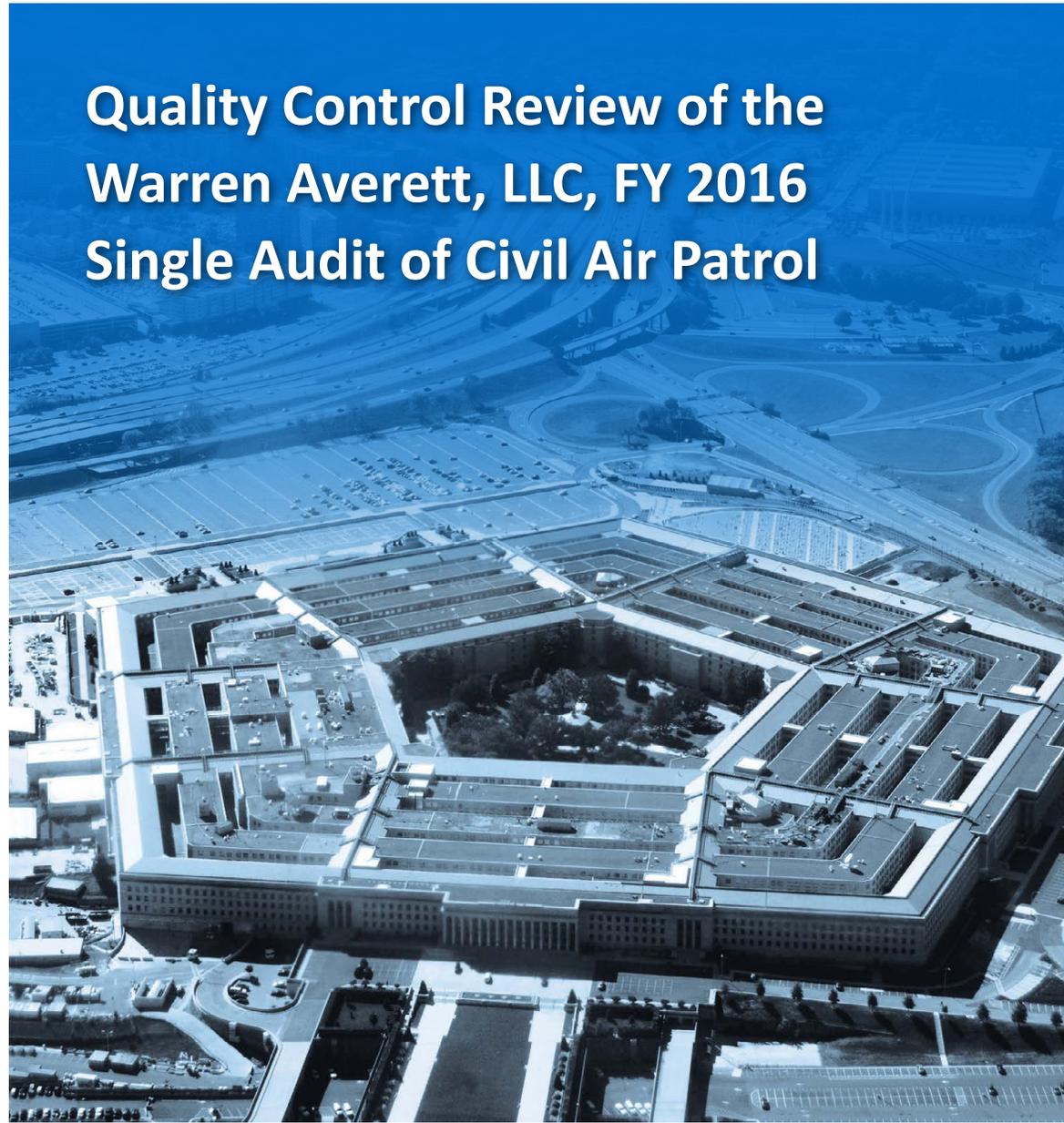




INSPECTOR GENERAL

U.S. Department of Defense

SEPTEMBER 26, 2018



Quality Control Review of the Warren Averett, LLC, FY 2016 Single Audit of Civil Air Patrol

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





Results in Brief

Quality Control Review of the Warren Averett, LLC, FY 2016 Single Audit of Civil Air Patrol

September 26, 2018

Objective

We conducted a quality control review of the Warren Averett, LLC (Warren Averett), FY 2016 single audit of Civil Air Patrol to determine whether the single audit was conducted in accordance with auditing standards and the requirements of Title 2 Code of Federal Regulations Part 200, “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” (Uniform Guidance).

Background

Public Law 104-156, “Single Audit Act Amendments of 1996,” 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 sets forth the standards for the single audit of non-Federal entities expending Federal awards and requires a single audit reporting package to be submitted to the Federal Audit Clearinghouse. The single audit reporting package includes the auditee’s financial statements, schedule of expenditures of Federal awards, summary schedule of prior audit findings, auditor’s reports, and a corrective action plan.

Civil Air Patrol is a private nonprofit corporation that provides the U.S. Government, state governments, and local government agencies assistance in meeting national and local emergencies; promotes aerospace education and training; and provides a Civil Air Patrol cadet training program. Civil Air Patrol expended \$50.2 million in

Background (cont’d)

Federal funds in FY 2016. Warren Averett is an accounting and advisory firm that Civil Air Patrol engaged to perform the FY 2016 single audit.

Findings

Warren Averett did not fully comply with auditing standards and Uniform Guidance requirements because the FY 2016 single audit reporting package did not include all of the required information, such as the definition of a significant deficiency or Other Matters paragraph for the identified noncompliance. Warren Averett also did not consistently identify findings as material weakness, significant deficiency, and noncompliance in the auditor’s reports and schedule of findings and questioned costs. In addition, Warren Averett did not:

- properly document the audit sampling plan for internal control testing, and
- adequately document the audit procedures performed to test internal controls and compliance with Federal requirements.

We had to obtain explanations from Warren Averett and review other documentation, such as supporting source documents obtained from Civil Air Patrol, to determine whether Warren Averett performed sufficient procedures to support the audit conclusions and overall opinion on compliance with requirements. Based on our review, we determined that Warren Averett performed sufficient audit procedures even though those procedures were not clearly documented.

Further, we also determined that Civil Air Patrol did not comply with Uniform Guidance single audit requirements for the FY 2016 single audit reporting package because it did not prepare the required summary schedule of prior audit findings and a corrective action plan.



Results in Brief

Quality Control Review of the Warren Averett, LLC, FY 2016 Single Audit of Civil Air Patrol

Recommendations

We recommend that, for future audits, the Warren Averett Member:

- document a sampling plan that considers the sample size necessary to test internal controls separately from the sample size for compliance testing with Federal requirements, and
- improve audit documentation to clearly describe the audit procedures performed and evidence obtained that supports conclusions on internal control and compliance with Federal requirements.

In addition, we recommend that the Warren Averett Member:

- revise the Civil Air Patrol FY 2016 single audit reporting package to accurately present the information required by auditing standards and the Uniform Guidance, and
- perform an assessment of other single audits performed by Warren Averett to determine whether additional training or changes to quality control procedures are necessary to ensure adequate documentation in future single audits.

We also recommend that the Civil Air Patrol Chief Financial Officer prepare the required corrective action plan and summary schedule of prior audit findings for inclusion in the revised FY 2016 single audit reporting package.

Management Comments and Our Response

Warren Averett and the Civil Air Patrol Chief Financial Officer agreed with our recommendations.

Warren Averett agreed to adequately document the sampling plan and improve the audit documentation. Therefore, this recommendation is resolved but

remains open. We will close this recommendation once we verify that Warren Averett has implemented the corrective actions.

In addition, Warren Averett agreed to revise the FY 2016 single audit reporting package to accurately present the required information and has submitted a corrected reporting package to the Federal Audit Clearinghouse. Warren Averett stated that it reassessed the identification of the findings presented in the single audit reporting package. Therefore, the recommendation is resolved but remains open. We will close this recommendation once we verify the revised single audit reporting package accurately includes all required information.

Warren Averett also agreed to perform an assessment of its other single audits to determine whether additional training or changes to quality control procedures are necessary. Therefore, the recommendation is resolved but remains open. We will close this recommendation once we verify the assessment of single audits has been completed.

The Civil Air Patrol Chief Financial Officer agreed to prepare the required corrective action plan and summary schedule of prior audit findings in the revised FY 2016 single audit reporting package. We confirmed that Civil Air Patrol, in coordination with Warren Averett, submitted a revised reporting package to the Federal Audit Clearinghouse containing the required corrective action plan and summary schedule of prior audit findings. Therefore, this recommendation is closed.

Please see the Recommendations Table on the next page.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Warren Averett, LLC	None	A.1, B.1, and B.2	
Civil Air Patrol	None	None	A.2

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





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

September 26, 2018

Board of Governors
Civil Air Patrol

Chief Financial Officer
Civil Air Patrol

Member
Warren Averett, LLC

**SUBJECT: Quality Control Review of the Warren Averett, LLC, FY 2016 Single Audit of
Civil Air Patrol (Report No. DODIG-2018-156)**

We are providing this report for your information and use. We conducted this quality control 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.

We considered management comments on a draft of this report when preparing the final report. Comments from Warren Averett, LLC, and the Civil Air Patrol Chief Financial Officer addressed all specifics of the findings and recommendations; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to Ms. Carolyn R. Hantz at (703) 604-8877 (DSN 664-8877).

A handwritten signature in black ink, appearing to read "Randolph R. Stone", with a long horizontal line extending to the right.

Randolph R. Stone
Deputy Inspector General
Policy and Oversight

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Introduction

Objective

As the Department of Defense is the cognizant Federal agency for Civil Air Patrol, we performed a quality control review of the Warren Averett, LLC (Warren Averett), single audit report and supporting audit documentation for the audit period of October 1, 2015, through September 30, 2016.¹ Our objective was to determine whether the single audit was conducted in accordance with auditing standards and the requirements of Title 2 Code of Federal Regulations (CFR) Part 200, “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” (Uniform Guidance).² Appendix A contains our scope and methodology. Appendix B lists the compliance requirements that Warren Averett determined to be direct and material to the audit period that ended on September 30, 2016.

Background

Civil Air Patrol

Civil Air Patrol, a civilian auxiliary of the United States Air Force, is a private nonprofit corporation.³ Civil Air Patrol’s three primary missions are to assist the U.S. Government, state governments, and local government agencies in meeting local and national emergencies; promote aerospace education and training; and provide a Civil Air Patrol cadet training program. During FY 2016, Civil Air Patrol expended \$50.2 million in Federal funds. All Federal funds were expended under a cooperative agreement awarded by the United States Air Force. Civil Air Patrol engaged Warren Averett to perform the FY 2016 single audit.

Warren Averett

Warren Averett is an accounting and advisory firm that provides specialized audit, tax, accounting, and consulting services. Warren Averett maintains its own system of internal quality control over its accounting and auditing practices as required by the American Institute of Certified Public Accountants. The Warren Averett office in Montgomery, Alabama, performed the Civil Air Patrol’s FY 2016 single audit.

¹ Title 2 Code of Federal Regulations Part 200 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. The Department of Defense provided all the direct funding to Civil Air Patrol in FY 2016; therefore, the Department of Defense is the cognizant Federal agency.

² Auditing standards include both Government Accountability Office, “Government Auditing Standards,” (GAS) and the American Institute for Certified Public Accountants, “Codification of Statements on Auditing Standards,” (AU-C).

³ Public Law No. 79-476 incorporated Civil Air Patrol and Public Law No. 80-557 established Civil Air Patrol as the Air Force’s civilian auxiliary.

Single Audit

Public Law 104-156, “Single Audit Act Amendments of 1996,” (the Act) was enacted to promote sound financial management of Federal awards administered by non-Federal entities. In addition, the Act established uniform requirements for audits of Federal awards. The Uniform Guidance sets forth the standards for obtaining consistency and uniformity among Federal agencies for the audit of non-Federal entities expending Federal awards. The single audit includes an audit of the non-Federal entity’s financial statements and Federal awards as described in the Uniform Guidance. The audit requirements in the Uniform Guidance became effective for non-Federal entity fiscal years beginning on or after December 26, 2014.

Non-Federal entities that expend Federal funds of \$750,000 or more in a year are subject to the Act and the Uniform Guidance requirements. Therefore, these entities must have an annual single or program-specific audit performed in accordance with Government Auditing Standards and submit a complete reporting package to the Federal Audit Clearinghouse.⁴ The Uniform Guidance requires the reporting package to include the auditee’s financial statements, schedule of expenditures of Federal awards, summary schedule of prior audit findings, auditor’s reports, and a corrective action plan.

Review Results

Warren Averett did not fully comply with auditing standards and Uniform Guidance requirements when it prepared the FY 2016 single audit reporting package. Specifically, the reporting package did not include all of the required information and some of the information included was inaccurate (Finding A). In addition, Civil Air Patrol did not comply with Uniform Guidance requirements for preparing a summary schedule of prior audit findings and corrective action plan (Finding A). As a result, Warren Averett and Civil Air Patrol need to correct the issues identified and submit a revised single audit reporting package. We also identified deficiencies in audit documentation that Warren Averett needs to correct for future single audits (Finding B).

⁴ The Office of Management and Budget designated the Federal Audit Clearinghouse as the repository of record for single audit reports, and as such, it maintains a database of completed audits, provides appropriate information to Federal agencies, and performs followup with auditees that have not submitted the required information.

Finding A

Single Audit Reporting Package Contained Inaccurate Information

Warren Averett auditors did not fully comply with auditing standards and Uniform Guidance requirements when they prepared the FY 2016 single audit reporting package. Specifically, Warren Averett did not properly include all of the required information and did not consistently identify findings as material weakness, significant deficiency, and noncompliance in the auditor's reports and schedule of findings and questioned costs.⁵

In addition, Civil Air Patrol did not comply with Uniform Guidance requirements for the FY 2016 single audit reporting package because it did not prepare the required summary schedule of prior audit findings and a corrective action plan.⁶ As a result, the Department of Defense did not receive a complete and accurate reporting package that provided all information necessary to effectively monitor Civil Air Patrol's use of Federal funds.

Auditor's Reports and Schedule of Findings and Questioned Costs

Warren Averett auditors did not prepare the Civil Air Patrol FY 2016 single audit reporting package in accordance with auditing standards and the Uniform Guidance. Auditing standards require that the auditor's reports contain certain elements including the definitions of deficiency in internal control, material weakness, and significant deficiency, when applicable. In addition, auditing standards require reports to include a description of the significant deficiencies and material weaknesses identified or to reference an accompanying schedule that contains a description. Further, if a noncompliance is identified that does not result in a modified opinion, the auditor's report must include an Other Matters paragraph that describes the noncompliance.⁷

⁵ Auditor's reports include both the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards" and the "Report on Compliance for the Major Program and on Internal Control over Compliance Required by Uniform Guidance."

⁶ The summary schedule of prior audit findings must include the status of all audit findings identified in the prior year reporting package as required by 2 CFR §200.511(b).

⁷ These auditing standards are in AU-C sections 265.14, 935.31, and 935.33.

The Uniform Guidance states that the auditor must prepare a schedule of findings and questioned costs and include it in the single audit reporting package that is submitted to the Federal Audit Clearinghouse. The schedule of findings and questioned costs includes three sections. The first section is the summary of auditor's results, the second section is the findings related to the financial statements that must be reported, as required by Government Auditing Standards, and the third section is the findings and questioned costs for Federal awards. In addition, the Uniform Guidance requires that audit findings that relate to both financial statements and Federal awards be reported in both the second and third sections of the schedule of findings and questioned costs. However, the reporting in one section may be in summary form with a reference to detailed reporting in the other section. The Uniform Guidance also requires that the schedule of findings and questioned costs identify the major program dollar threshold and the low-risk auditee status.⁸

We identified the following missing information, inconsistencies, and inaccuracies in the Civil Air Patrol FY 2016 single audit reporting package.

- The "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards" did not include the required definition of a significant deficiency. In addition, the audit finding numbers identified in the report as significant deficiencies were inaccurate because the referenced finding numbers did not exist in the schedule of findings and questioned costs.
- The reporting package did not consistently identify material weakness, significant deficiency, and noncompliance findings. For example, the auditor's reports identified one finding as a material weakness. However, the schedule of findings and questioned costs identified the same finding as a significant deficiency. The auditors should properly identify material weakness, significant deficiency, and noncompliance findings throughout the single audit reporting package.
- The schedule of findings and questioned costs identified noncompliance that did not result in a modified opinion but was required to be reported in accordance with Uniform Guidance requirements. However, the auditor's report did not include the required Other Matters paragraph for the identified noncompliance.

⁸ This Uniform Guidance requirement is in 2 CFR §200.515.

- The schedule of findings and questioned costs did not properly identify findings that affected both the financial statements and Federal awards. The auditor’s report identified nine findings that affected the financial statements. However, the schedule of findings and questioned costs identified only five findings that affected the financial statements. The schedule of findings and questioned costs should have included or made reference to all nine findings that affected the financial statements.

In addition, we noted that the schedule of findings and questioned costs did not accurately identify, as required by the Uniform Guidance, the major program dollar threshold or the low-risk auditee status for the FY 2016 Civil Air Patrol single audit. This information does not affect the scope of the audit because Civil Air Patrol has only one Federal award. Nevertheless, Warren Averett should have correctly identified the major program threshold and low-risk auditee status based on the Uniform Guidance requirements.

As a result of the deficiencies identified, Warren Averett must revise the FY 2016 single audit reporting package so that it includes complete, consistent, and accurate information.

Summary Schedule of Prior Audit Findings and Corrective Action Plan

Civil Air Patrol did not prepare a summary schedule of prior audit findings and a separate corrective action plan for inclusion in the FY 2016 single audit reporting package as required by the Uniform Guidance.⁹ The Uniform Guidance requires the auditee to prepare a summary schedule of prior audit findings that includes both Federal award and financial statement findings. The Uniform Guidance also requires that the auditee, in a document separate from the auditor’s findings, prepare a corrective action plan. The corrective action plan must address both Federal award and financial statement findings. The corrective action plan must also include the name of the contact person responsible for the corrective action, the corrective action planned, and the anticipated completion date. This information is required so that Federal agencies can perform adequate follow-up on findings and corrective actions taken in response to reported audit findings.¹⁰

⁹ The Uniform Guidance identifies specific responsibilities for auditors, auditees, and Federal agencies. Civil Air Patrol, the auditee, is responsible for preparing the corrective action plan and the summary schedule of prior audit findings.

¹⁰ This Uniform Guidance requirement is in 2 CFR §200.511.

The FY 2016 single audit reporting package indicates that Civil Air Patrol did not prepare a summary schedule of prior audit findings because there were no prior year single audit findings. However, we noted that Warren Averett had reported 12 financial statement findings in the FY 2015 single audit reporting package. Therefore, Civil Air Patrol should have prepared and included a summary schedule of prior audit findings in the FY 2016 single audit reporting package as required by the Uniform Guidance.

In addition, Civil Air Patrol did not prepare a separate corrective action plan for the FY 2016 single audit reporting package. Warren Averett auditors reported nine findings in the FY 2016 single audit. The audit finding detail included Civil Air Patrol's response for each of the findings. However, Civil Air Patrol's response was not a separate document and did not include a contact person or anticipated completion date for the planned actions. Civil Air Patrol should have prepared a separate corrective action plan that included the contact person, planned corrective action, and anticipated completion date as required.

Recommendations, Management Comments, and Our Response

Recommendation A.1

We recommend that the Warren Averett, LLC, Member revise the single audit reporting package to completely, consistently, and accurately present the information required by auditing standards and the Uniform Guidance, and coordinate with Civil Air Patrol to submit the revised reporting package to the Federal Audit Clearinghouse.

Warren Averett, LLC, Comments

Warren Averett agreed with the recommendation and stated that a corrected reporting package was submitted to the Federal Audit Clearinghouse and certified on August 30, 2018. Warren Averett stated that after review and discussion of the nine findings, it determined that five findings related to the financial statements and the remaining four findings related to compliance.

Our Response

Comments from Warren Averett addressed all specifics of the recommendation, and no further comments are required. We reviewed the revised reporting package submitted to the Federal Audit Clearinghouse. The revised reporting package includes all required definitions, accurate audit finding numbers, the required Other Matters paragraph for the identified noncompliance, the correct major program dollar threshold, and the correct low-risk auditee status.

In addition, the revised reporting package consistently identifies the material weakness, significant deficiency, and noncompliance findings. We also confirmed Warren Averett's comment that it revised the reporting package to identify five findings related to the financial statements rather than the nine findings originally reported. The recommendation is resolved but will remain open. We will close Recommendation A.1 once we review the audit documentation that supports the determination that only five findings were related to the financial statements.

Recommendation A.2

We recommend that the Civil Air Patrol Chief Financial Officer prepare the summary schedule of prior audit findings and corrective action plan in accordance with Uniform Guidance requirements and coordinate with Warren Averett, LLC, to submit the revised reporting package to the Federal Audit Clearinghouse.

Civil Air Patrol Comments

The Civil Air Patrol Chief Financial Officer agreed with the recommendation and stated that the summary schedule of prior audit findings and a corrective action plan were completed, coordinated with Warren Averett, and submitted to the Federal Audit Clearinghouse with the revised reporting package.

Our Response

Comments from the Civil Air Patrol Chief Financial Officer addressed all specifics of the recommendation, and no further comments are required. We reviewed the revised reporting package and confirmed that it contained the summary schedule of prior audit findings and a corrective action plan required by the Uniform Guidance. Therefore, the recommendation is resolved and closed.

Finding B

Federal Program Audit Documentation Needs Improvement

Warren Averett auditors did not fully comply with auditing standards and the American Institute of Certified Public Accountants Audit Guide, “Government Auditing Standards and Single Audits,” April 1, 2016, (the Audit Guide) when they prepared the required audit documentation. Specifically, Warren Averett auditors did not properly document the audit sampling plan for internal control testing and did not adequately document the audit procedures performed to test internal control and compliance. As a result, additional information and explanations were required for us to conclude that Warren Averett obtained sufficient evidence to support audit conclusions. Further, the number of documentation deficiencies indicates that the supervisory review and system of quality control was not effective for the FY 2016 Civil Air Patrol single audit.

Audit Sampling Plan

Warren Averett auditors did not adequately document the audit sampling plan that they used to test internal controls for some direct and material compliance requirements. Specifically, the audit documentation indicated that dual purpose testing would be used to test five compliance requirements that had a population of more than 250 items.¹¹ Dual purpose testing is an audit approach that uses the same sample to test the operating effectiveness of a control and to test whether the auditee complied with the relevant Federal statutes, regulations, or terms and conditions of Federal awards. The Warren Averett auditors adequately documented the basis used to determine the sample size necessary to test compliance. However, they did not adequately document the basis used to determine the sample size necessary for the internal control testing.

The Audit Guide provides guidance on audit sampling in Chapter 11, “Audit Sampling Considerations of Uniform Guidance Compliance Audits.” The Audit Guide states that because the objectives for tests of controls and tests of compliance are different, samples sizes should be considered separately and the sample size used for dual purpose tests will usually be the larger of the one that would be used if the control and compliance samples were tested separately. The Audit Guide also identifies minimum sample sizes designed to provide sufficient appropriate

¹¹ The five compliance requirements were Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Equipment and Real Property Management; Period of Availability; and Procurement, Suspension, and Debarment.

audit evidence that controls are operating effectively and states that auditors may need to use professional judgment to determine if larger sample sizes are warranted. The minimum sample sizes identified in the Audit Guide for control testing (see Table 1) require the auditor to assess both the inherent risk factors and the significance of the control being tested when no deviations are expected.¹² Several factors may be considered in determining the significance level of a control including the potential magnitude of noncompliance with Federal program requirements if the particular control were to fail and the number of controls selected for testing.

Table 1. Audit Guide – Control Testing Sample Size (Appropriate for sampling from populations of 250 items or greater)

Significance of Control and Inherent Risk of Compliance Requirement	Minimum Sample Size (0 deviations expected)
Very significant and higher inherent risk	60
Very significant and limited inherent risk Or Moderately significant and higher inherent risk	40
Moderately significant and limited inherent risk	25

Warren Averett auditors documented their sampling plan on a form titled “GSA-CX-8.2: Tests of Compliance-Sampling Planning and Evaluation Form for Federal Award Programs.” They further indicated that they would perform dual purpose testing for some compliance requirements. However, the form that Warren Averett auditors used was designed to document the sampling methodology and sample size selected to test compliance with Federal requirements. The form’s instructions suggest using another form to document the sampling methodology and sample size selected to test internal controls. Warren Averett auditors did not use another form or otherwise document the sampling plan for internal control testing.

In addition, Warren Averett auditors documented their assessment of the inherent risk factors for each of the compliance requirements. However, they did not document their assessment of the significance of the internal controls that they tested. When asked, the Warren Averett auditors explained that they considered and assessed the significance of the internal control when they selected the samples to perform compliance testing. However, this assessment was not included in the audit documentation. As a result, it was unclear if the sample sizes selected were appropriate for dual purpose testing or provided sufficient evidence to support conclusions on internal controls.

¹² A deviation is a departure from the expected performance of the prescribed control.

Due to the lack of a documented sampling plan for internal control testing, we spent additional time analyzing Warren Averett's risk assessment to determine whether the sample sizes selected provided sufficient appropriate evidence to make conclusions on the operating effectiveness of internal controls over compliance. Through our discussions with Warren Averett auditors and review of audit documentation, we concluded that the sample sizes selected were acceptable to support the auditor's conclusions on internal controls.

Because we accepted that the sample sizes selected were sufficient to support conclusions, Warren Averett does not need to perform additional procedures for the FY 2016 Civil Air Patrol single audit. Nevertheless, for future audits, Warren Averett needs to improve documentation of its audit sampling plan to separately consider the sample sizes necessary to test internal controls and compliance with Federal requirements. In addition, there should be clear evidence that the auditors considered the significance of the control when selecting the sample size for testing internal controls.

Audit Procedures Performed

Warren Averett auditors did not adequately document the audit procedures performed and evidence obtained to support their conclusions on the Civil Air Patrol's internal controls and compliance with Federal requirements. Specifically, Warren Averett auditors did not adequately identify the planned internal control testing or provide clear descriptions of the audit procedures performed to test internal controls and compliance with Federal requirements. In addition, the audit documentation contained inconsistent and inaccurate information.

Auditing standards require that audit documentation be appropriately detailed to provide a clear understanding of the work performed, the evidence obtained, and the conclusions reached. The documentation and audit evidence should include sufficient detail to enable an experienced auditor with no previous connection to the audit to understand the nature, timing, and extent of audit procedures performed; the results of those audit procedures; the audit evidence obtained; significant professional judgements made; and the conclusions reached.¹³ The Uniform Guidance requires auditors to plan and perform the testing of internal control to support a low assessed level of control risk and to determine whether the auditee has complied with Federal requirements.¹⁴ In addition, the Audit Guide, chapter 11, provides guidance regarding the documentation required

¹³ This auditing standard is in AU-C section 230.08.

¹⁴ This Uniform Guidance requirement is in 2 CFR §200.514.

when performing internal control and compliance testing using a dual purpose sample. Specifically, the audit documentation of internal control and compliance tests should be distinguished from one another so there is a clear distinction between the audit objectives and test results for each test so that separate conclusions may be reached on the internal control attributes and compliance attributes tested.

Warren Averett auditors did not adequately identify the internal control testing performed. For example, the Warren Averett audit documentation for the review of the procurement, suspension, and debarment requirement included a testing spreadsheet that identified multiple attributes to test, such as purchase requisition approval, procurement file review, and competitive bidding documented. However, the spreadsheet did not clearly distinguish or identify which attributes tested supported conclusions on internal controls. The audit documentation also included a narrative description of Warren Averett's audit procedures. However, this document did not identify the specific attributes that supported internal control testing. We had to perform additional analysis to identify the internal control testing performed and determine that internal control testing was sufficient to support conclusions.

In addition, Warren Averett auditors did not adequately document the audit procedures performed to review the direct and material compliance requirements. Specifically, the auditors did not provide a clear description of the audit procedures performed, evidence obtained, and conclusions reached. For example, Warren Averett auditors did not document their consideration of all financial reports that Civil Air Patrol was required to submit to the Federal awarding agency when performing audit procedures to test internal controls and compliance with reporting requirements. The Compliance Supplement identifies financial reports as Standard Form (SF) 425, "Federal Financial Report" and SF 270, "Request for Advance or Reimbursement," among other standard forms.¹⁵ Civil Air Patrol submitted both SF 425 and SF 270 reports to the Federal awarding agency. However, Warren Averett auditors only identified the SF 425 when they performed audit procedures on the reporting compliance requirement. We identified other documentation in the audit file that could be used to support conclusions on the reporting compliance requirement. Nevertheless, Warren Averett should have referenced this information when they performed the procedures and made conclusions on Civil Air Patrol's compliance with reporting requirements.

¹⁵ The Office of Management and Budget Compliance Supplement provides guidance to assist auditors in determining compliance requirements relevant to the audit, audit objectives, and suggested audit procedures. The Supplement, part 3, identifies the specific audit objectives for each compliance requirement. Auditors are required to use the Supplement when performing single audits.

Finally, the Warren Averett audit documentation contained inconsistent and inaccurate information. Specifically, we noted that prior year information was inappropriately included in the current year audit file and that summary conclusions did not always tie to supporting spreadsheets. For example, Warren Averett auditors prepared a spreadsheet to support the testing of internal controls and compliance for multiple compliance requirements. The spreadsheet identified FY 2016 purchase orders and included the order date, order number, vendor name, purchase order amount, and date paid. We noted that the invoice date and payment date for multiple sample items was from a prior fiscal year. We asked Warren Averett auditors for additional information and they provided a corrected spreadsheet. We performed limited retesting of the corrected spreadsheet by reviewing source documents obtained from Civil Air Patrol and verified the spreadsheet's accuracy and the audit conclusions.

Due to the audit documentation deficiencies that we identified, it was necessary for us to have extensive discussions with the auditors, analyze explanations and other documentation, and perform additional evaluation procedures to enable us to determine whether the auditors performed sufficient procedures to support conclusions on internal control and compliance. Based on our review, we determined that audit procedures performed were sufficient to support the audit conclusions and overall opinion on compliance with requirements. As a result, Warren Averett does not need to perform additional procedures for the FY 2016 Civil Air Patrol single audit. Nevertheless, for future audits, Warren Averett auditors must improve their audit documentation to identify the planned internal control testing, clearly distinguish the internal control testing from the compliance testing, and adequately and accurately document the audit procedures performed and evidence obtained.

Supervisory Review

Government Auditing Standards require that audit organizations maintain a system of quality control and that audits contain evidence of supervisory review of the work performed before an audit report is issued.¹⁶ The Warren Averett audit documentation was properly signed by both the preparer and a reviewer, and in some instances, a second reviewer. The audit documentation also included a form titled "Audit Supervision, Review, and Approval Form," which identifies review procedures to be completed, including the verification that the audit documentation provides a clear understanding of the work performed, the audit evidence obtained and the conclusions reached. However, the documentation deficiencies disclosed during our review indicate that the review procedures were not effective for the

¹⁶ These auditing standards are in GAS paragraphs 3.82 and 4.15.

Civil Air Patrol FY 2016 single audit. Warren Averett should perform an assessment of its single audits to determine whether additional training or changes to quality control procedures are necessary to ensure that future single audits clearly and accurately describe the work performed and evidence obtained to support conclusions.

Recommendations, Management Comments, and Our Response

Recommendation B.1

We recommend that, for future audits, the Warren Averett, LLC, Member:

- a. Document a sampling plan to separately consider the sample sizes necessary to test internal controls and compliance with Federal requirements. The internal control sampling plan must include an assessment on the significance of the internal control that is tested.**
- b. Improve audit documentation by clearly identifying the planned internal control testing and distinguishing the audit procedures performed to test internal controls from the audit procedures to test compliance with Federal requirements.**
- c. Prepare audit documentation that provides a clear and accurate description of all audit procedures performed and evidence obtained to support conclusions on internal controls and compliance with Federal requirements.**

Warren Averett, LLC, Comments

Warren Averett agreed with the recommendation and stated it made some improvements in documentation for the FY 2017 single audit, but because the FY 2017 single audit was issued before our review was complete, it was unable to fully implement all necessary documentation changes. Warren Averett stated that it will implement all the recommended changes in the FY 2018 single audit. The documentation improvements will include identifying the planned internal control testing, clearly distinguishing the internal control testing from the compliance testing, and adequately and accurately documenting the audit procedures performed and the evidence obtained.

Our Response

Comments from Warren Averett addressed all specifics of the recommendation, and no further comments are required. Therefore, the recommendation is resolved but will remain open. We will close Recommendation B.1 once we perform followup procedures on the FY 2018 single audit and verify that the corrective actions were sufficient to improve the audit documentation.

Recommendation B.2

We recommend that the Warren Averett, LLC, Member perform an assessment of single audits to determine whether additional training or changes to quality control procedures are necessary to ensure that future single audits contain sufficient details to accurately describe the work performed and evidence obtained to support conclusions.

Warren Averett, LLC, Comments

Warren Averett agreed with our recommendation and stated that in addition to having a required peer review performed on its system of quality control every 3 years, Warren Averett performed an extensive annual internal inspection during the years that were not covered by a peer review. Warren Averett stated that none of the peer reviews or internal inspections resulted in findings related to its single audits. However, Warren Averett stated that in response to our recommendation, it will perform an assessment of its single audits and evaluate the results to determine whether changes need to be made to its quality control procedures.

In addition, Warren Averett stated that staffing assignments will be reviewed for all single audits performed throughout the firm and reassignments made as necessary to ensure that all partner reviews and engagement quality control reviews are performed by personnel with extensive single audit experience. Warren Averett also stated that it will revise the agenda for training scheduled to be held in October 2018 to include more significant time on single audit training. The training will address audit sampling in the single audit environment, sample sizes, and documentation requirements.

Our Response

Comments from Warren Averett addressed all specifics of the recommendation, and no further comments are required. The recommendation is resolved but will remain open. We will close Recommendation B.2 once we verify that Warren Averett has completed the assessment of single audits, reviewed staffing assignments, and provided training.

Appendix A

Scope and Methodology

We conducted our quality control review from January 2018 through August 2018 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 2016 single audit of Civil Air Patrol performed by Warren Averett, using the 2016 edition of the CIGIE “Guide for Quality Control Reviews of Single Audits.” The Federal Audit Clearinghouse received the single audit report on May 3, 2017. The review focused on the following qualitative 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
- data collection form.

Use of Computer-Processed Data

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

Prior Coverage

During the last 5 years, the Department of Defense Office of Inspector General has not conducted a quality control review on Warren Averett, LLC, or the Civil Air Patrol’s single audits.

Appendix B

Compliance Requirements

Table 2. Compliance Requirements that Warren Averett, LLC, Determined Were Direct and Material to the Major Program.

Uniform Guidance Compliance Requirements	Direct & Material	Not Direct & 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 Availability	X	
Procurement, Suspension, and Debarment	X	
Program Income	X	
Reporting	X	
Subrecipient Monitoring		X
Special Tests and Provisions		X

Management Comments

Warren Averett, LLC



3815 Interstate Court
Montgomery, AL 36109
334.271.2200
warrenaverett.com

September 17, 2018

Mr. Randolph Stone
Deputy Inspector General Policy and Oversight
Department of Defense Office of Inspector General
4800 Mark Center Drive
Alexandria, Virginia 22350

Re: Quality Control Review of the Warren Averett, LLC FY 2016 Single Audit of
Civil Air Patrol (Project No. D2018-DAPOSA-0074.000)

Dear Mr. Stone:

In connection with your quality control review of our single audit of Civil Air Patrol in accordance Title 2 Code of Federal Regulations (CFR) Part 200 "Uniform Guidance" for the year ended September 30, 2016, we have provided herein our response to your findings in your report dated August 9, 2018.

Finding A - Single Audit Reporting Package Contained Inaccurate Information

Recommendation A.1:

We recommend that the Warren Averett, LLC (Warren Averett), Member revise the single audit reporting package to completely, consistently and accurately present the information required by auditing standards and the Uniform Guidance, and coordinate with Civil Air Patrol to submit the revised reporting package to the Federal Audit Clearinghouse.

Warren Averett Response:

Warren Averett concurs with the cognizant agency with respect to Recommendation A.1. With respect to the reporting package recommendations, Warren Averett submitted a corrected reporting package to the Federal Audit Clearinghouse, which was certified on August 30, 2018. After review and discussion, we determined that five of the nine items listed in the management letter were related to financial statement internal control. The remaining four findings were compliance related. We determined this based on the substance of the finding and the relationship of the breakdown in internal control to the client's internal control over financial reporting versus the client's internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Warren Averett, LLC (cont'd)

Finding B -Federal Program Audit Documentation Needs Improvement

Recommendation B.1:

We recommend that, for future audits, the Warren Averett, Member:

- a. Document a sampling plan to separately consider the sample sizes necessary to test internal controls and compliance with Federal requirements. The internal control sampling plan must include an assessment on the significance of the internal control that is tested.
- b. Improve audit documentation by clearly identifying the planned internal control testing and distinguishing the audit procedures performed to test internal controls from the audit procedures to test compliance with Federal requirements.
- c. Prepare audit documentation that provides a clear and accurate description of all audit procedures performed and evidence obtained to support conclusions on internal controls and compliance with Federal requirements.

Warren Averett Response:

Warren Averett concurs with the cognizant agency with respect to Recommendation B.1. Our engagement includes a significant amount of test work located in various sections of the engagement files. This test work includes tests of controls, tests of compliance and substantive test work. While the cognizant agency concluded that our test work was sufficient, we have taken note of the cognizant agency's suggestions regarding improvement of our documentation. Since the 2017 single audit for this client was issued before the cognizant agency's review was complete, we were able to make some improvements in our documentation, but were unable to fully implement the necessary documentation changes in the 2017 single audit. However, we will implement the recommended changes in the 2018 audit. This includes specifically identifying the planned internal control testing, clearly distinguishing the internal control testing from the compliance testing, and adequately and accurately documenting the audit procedures performed and the evidence obtained to support our conclusions on internal controls and compliance. These improvements in documentation will improve the clarity of the audit procedures performed in such a way that someone void of institutional knowledge can understand the audit approach with limited inquiry.

Recommendation B.2:

We recommend that the Warren Averett, Member perform an assessment of single audits to determine whether additional training or changes to quality control procedures are necessary to ensure that future single audits contain sufficient details to accurately describe the work performed and evidence obtained to support conclusions.

Warren Averett Response:

Warren Averett concurs with the cognizant agency with respect to Recommendation B.2. We are a member of the AICPA Governmental Audit Quality Center and of the AICPA Peer Review Program which requires a review of our system of quality control for our accounting and auditing practice every three years. Our most recent peer review for the year ended July 31, 2016 resulted

Warren Averett, LLC (cont'd)

in a pass rating. We also perform an extensive annual internal inspection during the years which are not covered by a peer review. None of these peer reviews or internal inspections have resulted in findings related to our single audits, but we will implement the following revised policies and procedures related to single audits in response to the cognizant agency's recommendations:

- 1) We will perform an assessment of single audits by choosing additional single audits in the current year internal inspection, and we will ensure that a reviewer with extensive single audit experience performs these inspections. We will evaluate the results of this assessment to determine whether changes need to be made to our quality control procedures.
- 2) We will review the staffing assignments for all single audits performed through-out the firm, and make reassignments as necessary to ensure that all partner reviews and engagement quality control reviews are performed by personnel with extensive single audit experience. For the near-term, all engagement quality control reviews for Montgomery office single audits will be performed by personnel outside of the Montgomery office.
- 3) We have already scheduled an 8 hour training class entitled "Governmental Audit Bootcamp" for early October 2018. We will add to or revise the agenda for this course to include more significant time spent on single audit training. We will specifically address sampling in the single audit environment, sample sizes, and documentation requirements.

We would like to thank you for your consideration of our responses.

Sincerely,

Warren Averett, LLC

Civil Air Patrol



NATIONAL HEADQUARTERS
UNITED STATES AIR FORCE AUXILIARY
105 South Hansell Street
Maxwell AFB, Alabama 36112

30 August 2018

Response to Quality Control Review of Warren Averett, LLC, FY2016 Single Audit of Civil Air Patrol

Finding A

Civil Air Patrol did not comply with Uniform Guidance requirements for the FY2016 single audit reporting package because it did not prepare the required summary schedule of prior audit findings and a corrective action plan.

Civil Air Patrol agrees with this finding. The required summary schedule of prior audit findings and a corrective action plan have been completed, coordinated with Warren Averett, LLC, and submitted to the Federal Audit Clearinghouse with the revised 2016 reporting package.

A handwritten signature in cursive script that reads "Stacy Jackson".

Stacy Jackson, CPA, CFE
Chief Financial Officer

Acronyms and Abbreviations

- CIGIE** Council of the Inspectors General on Integrity and Efficiency
- CFR** Code of Federal Regulations
- GAS** Government Auditing Standards



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U.S. DEPARTMENT OF DEFENSE

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