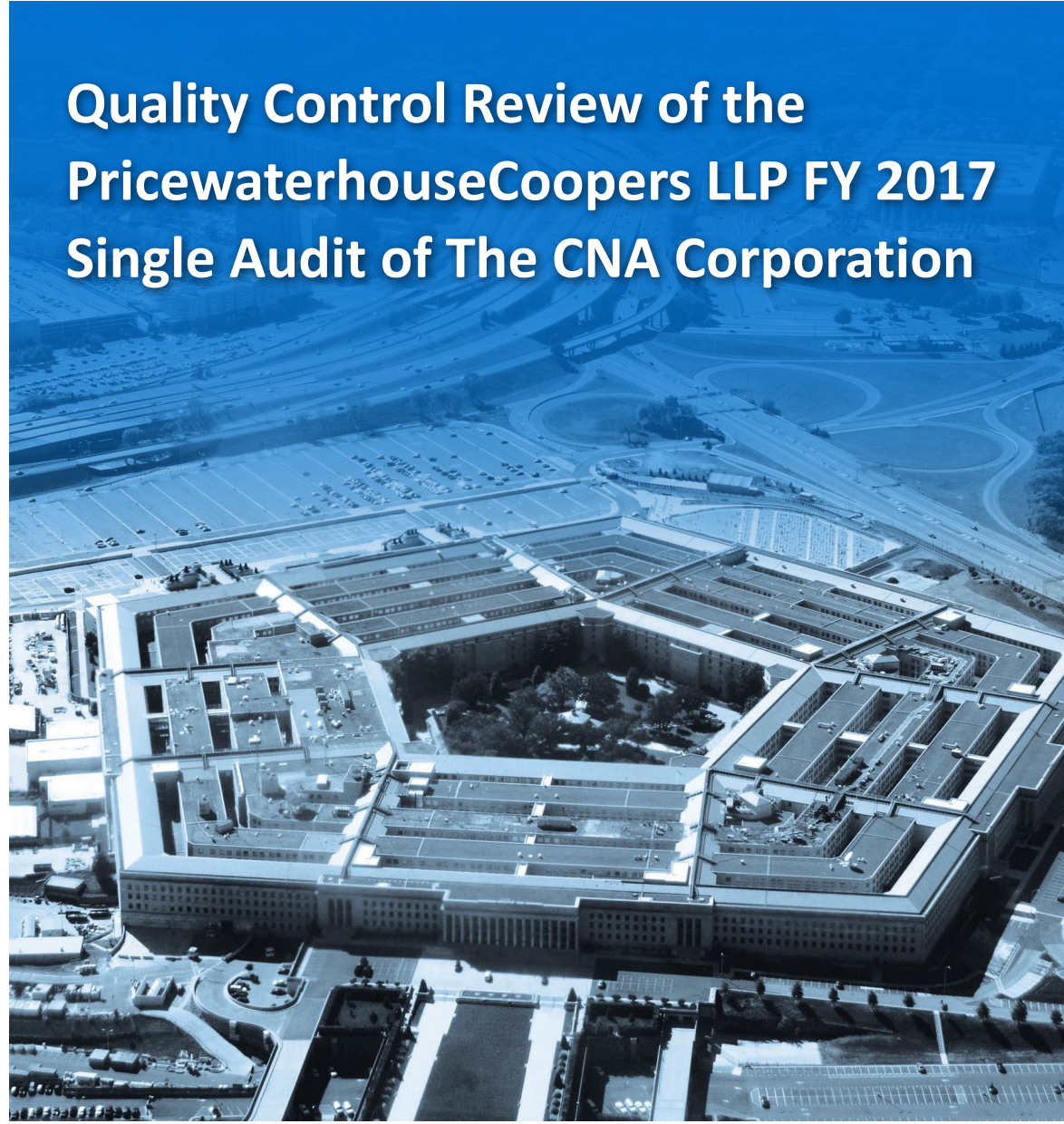




INSPECTOR GENERAL

U.S. Department of Defense

MARCH 22, 2019



Quality Control Review of the PricewaterhouseCoopers LLP FY 2017 Single Audit of The CNA Corporation

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





Results in Brief

Quality Control Review of the PricewaterhouseCoopers LLP FY 2017 Single Audit of The CNA Corporation

March 22, 2019

Objective

We conducted a quality control review of the PricewaterhouseCoopers LLP (PwC) FY 2017 single audit of the CNA Corporation to determine whether the single audit was conducted in accordance with auditing standards and Federal requirements.

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. Title 2 Code of Federal Regulations Part 200, "Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards" (Uniform Guidance) sets forth the standards for the audit of non-Federal entities expending Federal awards. The Uniform Guidance also requires a single audit reporting package to be submitted to the Federal Audit Clearinghouse.

The CNA Corporation is a not-for-profit entity that conducts studies, analysis, and other research-based activities predominantly for agencies of Federal, state, and local governments. The majority of the CNA Corporation's activities consist of the management and execution of the Center for Naval Analyses, a federally funded research and development center, whose primary focus is to provide assistance to the Department of the Navy. During FY 2017, the CNA Corporation expended

Background (cont'd)

\$105.9 million in Federal awards on one program, the research and development cluster. Of the \$105.9 million, \$90.4 million was expended from DoD awards. The CNA Corporation engaged PwC to perform the FY 2017 single audit.

PwC is a member firm of PricewaterhouseCoopers International Limited, a global organization that provides a wide array of business services, including audit and assurance, consulting, and tax preparation and planning.

Review Results

PwC generally complied with auditing standards and Uniform Guidance requirements when performing the FY 2017 single audit of the CNA Corporation.





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DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
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March 22, 2019

Board of Trustees
The CNA Corporation

Controller
The CNA Corporation

Partner
PricewaterhouseCoopers LLP

**SUBJECT: Quality Control Review of the PricewaterhouseCoopers LLP FY 2017
Single Audit of The CNA Corporation (Report No. DODIG-2019-067)**

We are providing this report for your information and use. 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.

The purpose of our review was to determine whether the PricewaterhouseCoopers LLP FY 2017 single audit of the CNA Corporation was conducted in accordance with auditing standards and Federal requirements. We concluded that PricewaterhouseCoopers LLP generally complied with auditing standards and Federal requirements when performing the single audit.

We appreciate the cooperation and assistance received during the quality control review. 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".

Randolph R. Stone
Deputy Inspector General
Policy and Oversight

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Introduction

Objective

We conducted a quality control review to determine whether PricewaterhouseCoopers LLP (PwC) performed the FY 2017 single audit of the CNA Corporation in accordance with auditing standards and Federal requirements.¹ Appendix A contains our scope and methodology. Appendix B lists the compliance requirements that PwC determined to be direct and material to the CNA Corporation's fiscal year that ended on September 30, 2017.

Background

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 and to establish uniform requirements for audits of Federal awards. Title 2 Code of Federal Regulations (CFR) Part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (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 audit requirements in the Uniform Guidance became effective for non-Federal entity fiscal years beginning on or after December 26, 2014.²

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.³ The single audit includes an audit of the non-Federal entity's financial statements and Federal awards as described in the Uniform Guidance.

The CNA Corporation

The CNA Corporation is a not-for-profit entity that conducts studies, analysis, and other research-based activities predominantly for agencies of Federal, state, and local governments. The majority of the CNA Corporation's activities consist

¹ Auditing standards include both Government Accountability Office, "Government Auditing Standards," and the American Institute for Certified Public Accountants, "Codification of Statements on Auditing Standards."

² The effective date for the Uniform Guidance audit requirements is identified in 2 CFR 200.110(b).

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

of the management and execution of the Center for Naval Analyses, a federally funded research and development center.⁴ The Center of Naval Analyses' primary focus is to provide assistance to the Department of the Navy in the areas of military preparedness, operations evaluation, systems analysis, foreign affairs, strategic relationships, humanitarian operations, and logistics. In addition, the CNA Corporation operates the Institute for Public Research, which provides expert, high-level research and analysis services to clients at all levels of government, in the areas of education, energy and the environment, air traffic management, safety and security, and other domestic issues. During FY 2017, the CNA Corporation expended \$105.9 million in Federal funds on one major program, the research and development cluster.⁵ Of the \$105.9 million, \$90.4 million was expended from DoD awards. The CNA Corporation engaged PwC to perform the FY 2017 single audit.

PricewaterhouseCoopers LLP

PwC is a member firm of PricewaterhouseCoopers International Limited, a global organization that provides a wide array of business services, including audit and assurance, 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. The PwC office in McLean, Virginia, performed the CNA Corporation's FY 2017 single audit.

Review Results

We reviewed the FY 2017 single audit of the CNA Corporation using the Council of the Inspectors General on Integrity and Efficiency (CIGIE) "Guide for Quality Control Reviews of Single Audits." The CIGIE guide identifies the requirements for the single audit, such as audit planning, internal control testing, and compliance testing that auditors must perform and document during the audit. We reviewed the audit documentation, analyzed the nature and extent of the audit procedures performed, and verified sufficient evidence was obtained to support conclusions and the audit report opinion. Based on our review, we determined that PwC generally complied with auditing standards and Uniform Guidance requirements when performing the FY 2017 single audit of the CNA Corporation.

⁴ A federally funded research and development center are activities that are sponsored under a broad charter by a government agency (or agencies) 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.

⁵ 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 requirements.

Appendix A

Scope and Methodology

We conducted our quality control review from October 2018 through March 2019 in accordance with the “Quality Standards for Inspection and Evaluation,” published in January 2012 by the 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 was sufficient, competent, and relevant to lead a reasonable person to sustain our conclusions.

We evaluated the FY 2017 single audit of the CNA Corporation performed by PwC 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 January 24, 2018. 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 DoD Office of Inspector General (DoD OIG) issued four reports discussing PwC single audits. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

DoD OIG

Report No. DODIG-2017-084, "Quality Control Review of PricewaterhouseCoopers LLP FY 2015 Single Audit of the RAND Corporation," May 19, 2017

PwC complied with the auditing standards and Office of Management and Budget (OMB) Circular A-133 requirements in performing the RAND Corporation FY 2015 single audit.

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

PwC did not fully comply with auditing standards and OMB Circular A-133 requirements for the Carnegie Mellon University FY 2014 single audit because it did not adequately perform and document audit procedures for their review of the cash management compliance requirement. As a result, PwC needed to complete additional audit work to support its audit conclusions.

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

PwC and the Defense Contract Audit Agency generally met 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. Consequently, PwC had to correct and resubmit the data collection form to the Federal Audit Clearinghouse.

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

PwC generally met auditing standards and OMB Circular A-133 requirements. Nonetheless, we identified deficiencies related to the documentation of audit sampling, reliance on financial statement internal control testing, and the review of the special tests and provisions, subrecipient monitoring, and reporting compliance requirements that needed to be addressed in future single audits.

Appendix B

Compliance Requirements

Table. Compliance Requirements that PricewaterhouseCoopers LLP 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	

Acronyms and Abbreviations

- CIGIE** Council of Inspectors General on Integrity and Efficiency
- CFR** Code of Federal Regulations
- OMB** Office of Management and Budget
- PwC** PricewaterhouseCoopers LLP

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