



INSPECTOR GENERAL

U.S. Department of Defense

FEBRUARY 2, 2022



Quality Control Review of the Warren Averett, LLC FY 2019 Single Audit of DEFENSEWERX, Inc.

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





Results in Brief

Quality Control Review of the Warren Averett, LLC FY 2019 Single Audit of DEFENSEWERX, Inc.

February 2, 2022

Objective

The objective of this quality control review was to determine whether Warren Averett, LLC (Warren Averett) performed the FY 2019 single audit of DEFENSEWERX, Inc. (DWX) in accordance with generally accepted government auditing standards and Federal requirements for single audits.

Background

Non-Federal entities that expend Federal funds of \$750,000 or more in a year are subject to Public Law 104-156, "Single Audit Act Amendments of 1996," (the Single Audit Act) and Title 2 Code of Federal Regulations (CFR) part 200 (the Uniform Guidance) audit requirements. The Single Audit 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. The Uniform Guidance establishes the standards for obtaining consistency and uniformity among Federal agencies for the audit of non-Federal entities expending Federal awards.

DWX is a nonprofit corporation headquartered in Niceville, Florida. DWX assists the Government by collaborating with industry and academia to find solutions to science and technology challenges. During FY 2019, DWX spent \$24.1 million in Federal awards on one major program, the Research and Development Cluster. The entire \$24.1 million was spent on DoD programs. DWX engaged Warren Averett to perform the FY 2019 single audit.

Finding

The Warren Averett auditors did not comply with auditing standards and Uniform Guidance requirements when performing the FY 2019 single audit of DWX because the Warren Averett auditors did not:

- obtain sufficient, appropriate evidence to support conclusions that the following compliance requirements were not direct and material to the major program being audited: Cash Management, Equipment and Real Property Management, Procurement and Suspension and Debarment, and Special Tests and Provisions;
- prepare sufficient, appropriate evidence of the procedures they performed and the audit evidence they obtained for the following compliance requirements: the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Performance; and
- include the correct Schedule of Expenditures of Federal Awards (SEFA) in the reporting package to reflect the adjustments made to DWX's financial statements.¹

As a result, Federal agencies cannot rely on the FY 2019 single audit because the audit documentation did not provide sufficient, appropriate evidence to support the audit conclusions and the audit opinion on DWX's compliance with Federal requirements. In addition, Federal agencies cannot use the SEFA to adequately monitor DWX Federal awards.

Recommendations

We recommend that the Warren Averett, LLC Partner:

- perform and document additional audit procedures to determine whether the Cash Management, Equipment, Procurement, and Special Tests compliance requirements are direct and material to the FY 2019 single audit, and perform any additional audit procedures necessary for the requirements determined to be direct and material;

¹ The Activities Allowed or Unallowed and the Allowable Costs/Cost Principles compliance requirements are collectively referred to as the Allowable Costs compliance requirements.



Results in Brief

Quality Control Review of the Warren Averett, LLC FY 2019 Single Audit of DEFENSEWERX, Inc.

Recommendations (cont'd)

- update the FY 2019 single audit documentation to provide a clear and accurate description of the procedures performed and to identify the evidence that supports the auditor's conclusions on the Allowable Costs and Period of Performance compliance requirements; and
- coordinate with DEFENSEWERX, Inc. to update and reissue the FY 2019 reporting package, including the correct Schedule of Expenditures of Federal Awards and the results of the additional audit procedures performed in response to our recommendations.

Comments from the Warren Averett Partner addressed the specifics of the recommendations; therefore, the recommendations are resolved but remain open. We will close the recommendations once we perform followup procedures to verify that Warren Averett corrective actions fully address our recommendations.

Please see the Recommendations Table on the next page for the status of recommendations.

Management Comments and Our Response

The Warren Averett Partner agreed with our recommendations and stated that Warren Averett will perform additional audit procedures, update audit documentation, and coordinate with DWX to update and reissue the report for the FY 2019 single audit. In addition, the Warren Averett Partner stated that Warren Averett will review the audit procedures completed in the FY 2020 single audit to ensure similar actions are taken.

Recommendations Table

| Management | Recommendations Unresolved | Recommendations Resolved | Recommendations Closed |
|---------------------|-------------------------------|-----------------------------|---------------------------|
| Warren Averett, LLC | None | 1, 2, 3 | None |

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

February 2, 2022

Partner
Warren Averett, LLC

SUBJECT: Quality Control Review of the Warren Averett, LLC FY 2019 Single Audit
of DEFENSEWERX, Inc. (Report No. DODIG-2022-060)

This final report provides the results of the DoD Office of Inspector General's quality control review. We previously provided copies of the draft report and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in the report.

The Warren Averett Partner agreed to address all the recommendations presented in the report; therefore, we consider the recommendations resolved and open. As described in the Recommendations, Management Comments, and Our Response section of this report, we will close the recommendations when you provide us adequate documentation showing that Warren Averett has completed all agreed-upon actions to implement the recommendations. Therefore, upon completion of the corrective actions for the FY 2019 single audit of DEFENSEWERX, Inc., please notify us of the specific actions taken in response to the recommendations. Your notice should be sent to [REDACTED]

If you have any questions, please contact [REDACTED]

A handwritten signature in black ink, appearing to read "Randolph R. Stone", is located above the name and title of the Assistant Inspector General.

Randolph R. Stone
Assistant Inspector General for Evaluations
Space, Intelligence, Engineering, and Oversight

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Introduction

Objective

The objective of this quality control review was to determine whether Warren Averett, LLC (Warren Averett) performed the FY 2019 single audit of DEFENSEWERX, Inc. (DWX) in accordance with generally accepted government auditing standards and Federal requirements for single audits.² Appendix A contains our scope and methodology. Appendix B lists the compliance requirements that Warren Averett identified as direct and material to DWX's fiscal year ended September 30, 2019.

Background

Non-Federal entities that expend Federal funds of \$750,000 or more in a year are subject to Public Law 104-156, "Single Audit Act Amendments of 1996," (the Single Audit Act) and Title 2 Code of Federal Regulations (CFR) part 200 (the Uniform Guidance) audit requirements. The Single Audit 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. The Uniform Guidance establishes the standards for obtaining consistency and uniformity among Federal agencies for the audit of non-Federal entities expending Federal awards.³

In accordance with the Uniform Guidance, non-Federal entities must have an annual single or program-specific audit performed in accordance with generally accepted government auditing standards. Non-Federal entities must also submit a complete single audit reporting package (reporting package) to the Federal Audit Clearinghouse.⁴ The single audit includes an audit of the non-Federal entity's financial statements and Federal awards. The auditors performing the single audit determine whether the financial statements are fairly presented in all material respects in accordance with generally accepted accounting principles. In addition, the auditors perform procedures on the non-Federal entity's internal controls over Federal programs. Also, the auditors determine whether the non-Federal

² The Government Accountability Office's "Government Auditing Standards" incorporates the American Institute for Certified Public Accountants' "Codification of Statements on Auditing Standards" (AU-C). Federal requirements for single audits are established in Title 2 Code of Federal Regulations, Part 200, subpart F, "Audit Requirements."

³ Office of Management and Budget, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," commonly referred to as the Uniform Guidance, implemented in 2 CFR Part 200 (2019). For the purposes of this report, we will be using the 2019 version of 2 CFR 200.

⁴ The reporting package includes the auditor's reports, the financial statements, the schedule of expenditures of Federal awards, the summary schedule of prior audit findings, and a corrective action plan, as required by 2 CFR 200.512(c). 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 followup with auditees that have not submitted the required information, as identified in 2 CFR 200.512(g).

entity complied with Federal laws, regulations, and the terms and conditions of Federal awards that may have a direct and material effect on its major programs. The Single Audit Act and Uniform Guidance require Federal agencies to assess the quality of single audits. Our review of DWX's FY 2019 single audit satisfies this requirement.

DWX Assists the Government in Collaborating with Industry and Academia

DWX is a nonprofit corporation headquartered in Niceville, Florida. DWX assists the Government by collaborating with industry and academia to find solutions to science and technology challenges. During FY 2019, DWX spent \$24.1 million in Federal awards on one major program, the Research and Development Cluster.⁵ The entire \$24.1 million was spent on DoD programs. DWX engaged Warren Averett to perform the FY 2019 single audit.

Warren Averett Performed the Single Audit

Warren Averett provides various services to a wide range of companies including audits, reviews, compilation, corporate advisory, tax preparation and planning. As required by generally accepted government auditing standards, Warren Averett is responsible for establishing and maintaining a system of quality control. The system of quality control is designed to provide reasonable assurance that the audit organization and its staff comply with professional standards and legal and regulatory requirements. Warren Averett must also obtain an external peer review of its quality control system.⁶ The most recently published external peer review report concluded that Warren Averett had suitably designed and complied with its system of quality control for the accounting and auditing practice.⁷ The Warren Averett office located in Fort Walton Beach, Florida, performed DWX's FY 2019 single audit.

⁵ The schedule of expenditures of Federal awards included in the reporting package identified \$34.8 million in FY 2019 Federal expenditures. However, the audit documentation included a corrected schedule of expenditures of Federal awards that identified \$24.1 million in actual FY 2019 Federal expenditures. See our Finding for additional details. The Compliance Supplement states that the Research and Development Cluster consists 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.

⁶ Government Auditing Standards section 3.82, "Quality Control and Assurance," December 2011.

⁷ Report of the Firm's System of Quality Control dated December 31, 2019, completed by Henderson Hutcherson & McCullough, PLLC.

Review Results

The Warren Averett auditors did not comply with auditing standards and Uniform Guidance requirements when performing the FY 2019 single audit of DWX. The Warren Averett auditors did not:

- obtain sufficient, appropriate evidence to support conclusions that the following compliance requirements were not direct and material to the major program being audited: Cash Management, Equipment and Real Property Management (Equipment), Procurement and Suspension and Debarment (Procurement), and Special Tests and Provisions (Special Tests);
- prepare sufficient, appropriate evidence of the procedures they performed and the audit evidence they obtained for the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles (the Activities Allowed or Unallowed and the Allowable Costs/Cost Principles compliance requirements are collectively referred to as the Allowable Costs compliance requirements), and Period of Performance; and
- include the correct Schedule of Expenditures of Federal Awards (SEFA) in the reporting package to reflect the adjustments made to DWX's financial statements.

Finding

Warren Averett Did Not Perform Sufficient Audit Procedures for DWX's Single Audit or Properly Report Federal Expenditures

Warren Averett did not perform sufficient audit procedures for the FY 2019 single audit of DWX. Specifically, the Warren Averett auditors did not:

- obtain sufficient, appropriate evidence to support conclusions that the following compliance requirements were not direct and material to the major program being audited: Cash Management, Equipment, Procurement, and Special Tests;
- prepare sufficient, appropriate evidence of the audit procedures they performed and the audit evidence they obtained for the review of the following compliance requirements: Allowable Costs and Period of Performance; and
- include the correct SEFA in the reporting package to reflect the adjustments made to DWX's financial statements.

As a result, Federal agencies cannot rely on the FY 2019 single audit because the audit documentation did not provide sufficient, appropriate evidence to support the audit conclusions and the audit opinion on DWX's compliance with Federal requirements. In addition, Federal agencies cannot use the SEFA to adequately monitor DWX Federal awards.

Warren Averett Did Not Obtain Sufficient, Appropriate Evidence to Support Conclusions that Four Compliance Requirements Were Not Direct and Material

The Warren Averett auditors did not obtain sufficient, appropriate evidence to support conclusions that the Cash Management, Equipment, Procurement, and Special Tests compliance requirements were not direct and material to the major program being audited. Auditing standards require the auditor to design and perform audit procedures that are appropriate for obtaining sufficient, appropriate audit evidence to be able to draw reasonable conclusions.⁸ The Uniform Guidance states that the auditors must determine whether the auditee complied with laws, regulations, and the terms and conditions of Federal awards that may have a direct

⁸ AU-C, Section 500, "Audit Evidence," paragraph .06, "Sufficient Appropriate Audit Evidence."

and material effect on each of its major programs.⁹ Auditors are also required to use the Compliance Supplement when performing a single audit in accordance with the Uniform Guidance requirements.¹⁰ The Compliance Supplement requires that the auditor exercise professional judgment when determining which of the compliance requirements are direct and material to each major program.¹¹ The Compliance Supplement identifies the audit objective for each compliance requirement that auditors must review as part of the single audit. See Appendix B for the Compliance Supplement details.

Warren Averett Did Not Obtain Sufficient, Appropriate Evidence to Support That the Cash Management Compliance Requirement Was Not Direct and Material

The Warren Averett auditors did not obtain sufficient, appropriate evidence to support their conclusion that the Cash Management compliance requirement was not direct and material. The Uniform Guidance requires that when the non-Federal entity receives advance payments from the Federal government, the non-Federal entity must minimize the time between transfer of funds and the disbursement. Furthermore, the advance payments to a non-Federal entity must be limited to the minimum amount needed and be timed to be in accordance with the actual, immediate cash requirements of the non-Federal entity in carrying out the purpose of the approved program or project. The advance payments must also be as close as administratively possible to the actual disbursements made by the non-Federal entity.¹² The Compliance Supplement states that the audit objective for the Cash Management compliance requirement is to determine whether payment methods minimized the time elapsing between transfer of funds from the U.S. Treasury and the disbursement of those funds by the non-Federal entity, and any interest earned on advances was properly remitted.¹³

The Warren Averett auditors documented that the Cash Management compliance requirement was not direct and material because DWX received advance payments and was not subject to the requirement for minimizing the time between receiving the funds and using the funds. The audit documentation did not provide any details to support the conclusion that DWX did not need to comply with Uniform Guidance requirements. We asked the Warren Averett auditors to explain why

⁹ 2 CFR, section 200.514(d).

¹⁰ 2 CFR Part 200, Appendix XI, "Compliance Supplement," August 2019. The Office of Management and Budget issues the Compliance Supplement annually and provides guidance to assist auditors in determining compliance requirements relevant to the audit, audit objectives, and suggested audit procedures.

¹¹ 2 CFR Part 200, Appendix XI, "Compliance Supplement," Part 2, "Matrix of Compliance Requirements," August 2019.

¹² 2 CFR 200.305(b) and Compliance Supplement, part 3.2, section C.

¹³ The audit objective is identified in 2 CFR Part 200, Appendix XI, "Compliance Supplement," August 2019, Part 3.2.

DWX would not be subject to Uniform Guidance requirements. The Warren Averett auditors explained that the advance payments were not at the request of DWX. In addition, we asked DWX to provide us with additional information on their process for requesting advances and all the FY 2019 advance requests for one Federal award. Based on discussions with Warren Averett auditors and DWX management, we confirmed that DWX was requesting advances from the Government, which would require DWX to comply with the Uniform Guidance requirements for minimizing the time between receiving the funds and using the funds. In addition, neither Warren Averett nor DWX provided us with any evidence to conclude that DWX did not need to comply with the Uniform Guidance requirements. As a result, we determined that Warren Averett did not obtain sufficient, appropriate evidence to conclude that the Cash Management compliance requirement was not direct and material to the audit.

Warren Averett Did Not Obtain Sufficient, Appropriate Evidence to Support That the Equipment Compliance Requirement Was Not Direct and Material

The Warren Averett auditors did not obtain sufficient, appropriate evidence to support their conclusion that the Equipment compliance requirement was not direct and material. The Uniform Guidance defines equipment as tangible personal property having a useful life of more than one year and an acquisition cost that equals or exceeds the lesser of the capitalization level established by the non-Federal entity or \$5,000.¹⁴ Non-Federal entities must use, manage, and dispose of equipment as required by the Uniform Guidance.¹⁵ The Compliance Supplement states that the audit objective for the Equipment compliance requirement is to determine whether the non-Federal entity:

- maintains proper records for equipment and adequately safeguards and maintains equipment, and
- disposes of any equipment acquired under Federal awards in accordance with Federal requirements.¹⁶

The Warren Averett auditors documented that the Equipment compliance requirement was not direct and material because all equipment purchased with Federal awards are considered property of the U.S. Air Force. However, the Uniform Guidance's definition of equipment does not distinguish between equipment owned by a non-Federal entity and equipment owned by the

¹⁴ 2 CFR section 200.33.

¹⁵ 2 CFR section 200.313.

¹⁶ The audit objectives is identified in 2 CFR Part 200, Appendix XI, "Compliance Supplement," August 2019, Part 3.2, Section F.

Government. Regardless of ownership, a non-Federal entity must use, maintain, and dispose of equipment in accordance with the Uniform Guidance requirements. Based on additional equipment information we obtained from Warren Averett and DWX, we confirmed that DWX purchased equipment with Federal funds. As a result, we determined that Warren Averett did not obtain sufficient, appropriate evidence to conclude that the Equipment compliance requirement was not direct and material to the audit.

Warren Averett Did Not Obtain Sufficient, Appropriate Evidence to Support That the Procurement Compliance Requirement Was Not Direct and Material

The Warren Averett auditors did not obtain sufficient, appropriate evidence to support their conclusion that the Procurement compliance requirement was not direct and material. When procuring property and services under a Federal award, the Uniform Guidance identifies that the non-Federal entity must follow several requirements, which include: maintaining written procurement procedures that align with applicable regulations, providing for full and open competition on all procurement transaction, and performing contract cost and price analysis.¹⁷ The Compliance Supplement states that the audit objective for the Procurement compliance requirement is to determine whether procurements under Federal awards were made in compliance with applicable Federal regulations and other procurement requirements specific to an award or subaward.¹⁸

The Warren Averett auditors documented that, upon review of Federal award agreements, detailed cash expenditures, and inquiry of DWX management, the auditors determined that DWX did not procure property or services under a Federal award. However, we identified transactions in the audit documentation that appeared to be procurements. Therefore, we asked the Warren Averett auditors to explain why they determined that there were no procurement transactions. The Warren Averett auditors responded that DWX obtained Government approval or used a sole-source for procurements. However, DWX was required to comply with the Procurement compliance requirement regardless of whether DWX obtained Government approval or used a sole-source for procurements. In addition, based on our review of DWX procurement transactions included in the audit documentation, DWX's procurement process, and the support for two procurement transactions, we determined that DWX made procurements

¹⁷ 2 CFR 200, sections 317 through 326.

¹⁸ The audit objective is identified in 2 CFR Part 200, Appendix XI, "Compliance Supplement," Part 3.2, Section I.

under Federal awards. As a result, we determined the Warren Averett auditors did not obtain sufficient, appropriate evidence to conclude that the Procurement compliance requirement was not direct and material to the audit.

Warren Averett Did Not Obtain Sufficient, Appropriate Evidence to Support that the Special Tests Compliance Requirement Was Not Direct and Material

The Warren Averett auditors did not obtain sufficient, appropriate evidence to support their conclusion that the Special Tests compliance requirement was not direct and material. The specific special terms and conditions are unique to each Federal program. For the Research and Development Cluster, the Compliance Supplement identifies the Key Personnel requirement as one specific special term and condition. The Compliance Supplement states that the audit objective for the Key Personnel requirement is to determine whether the non-Federal entity adhered to key personnel commitments specified in the application, proposal, or award and obtained any required Federal awarding agency approval for the personnel changes.¹⁹

The Warren Averett auditors documented that key personnel was a special test and provision that was considered for testing. The audit documentation further indicates that, after discussion with DWX management and the review of DWX's awards from the Government, the Warren Averett auditors did not identify any key personnel. Therefore, the Warren Averett auditors determined that the compliance requirement was not direct and material to the audit. However, we reviewed all DWX awards that were active during the FY 2019 single audit and determined that three of the five awards contained specific clauses requiring DWX to obtain approval from the Government before changing personnel from specific positions. For example, one award identified the following listed personnel as requiring approval for changes in personnel: Business Center Director, Deputy Business Center Director, and Innovation Principal. As a result, we determined the Warren Averett auditors did not obtain sufficient, appropriate evidence to conclude that the Special Tests compliance requirement was not direct and material to the audit.

¹⁹ The audit objective is identified in 2 CFR Part 200, Appendix XI, "Compliance Supplement," Part 5, Research and Development Programs.

Warren Averett Did Not Prepare Sufficient, Appropriate Evidence for the Review of the Allowable Costs and Period of Performance Compliance Requirements

The Warren Averett auditors did not prepare sufficient, appropriate evidence during their review of the Allowable Costs and Period of Performance compliance requirements. Specifically, the Warren Averett auditors did not adequately document the audit procedures they performed and the audit evidence they obtained for their review of these compliance requirements. Auditing standards require the auditor to design and perform audit procedures that are appropriate for obtaining sufficient, appropriate audit evidence to be able to draw reasonable conclusions.²⁰ In addition, auditing standards require the auditor to record the matters tested and to prepare audit documentation that enables an experienced auditor to understand the results of the audit procedures and the evidence obtained.²¹ The Uniform Guidance states that the auditor must perform procedures to obtain an understanding of the non-Federal entity's internal controls and to test the internal controls and compliance with laws, regulations, and the terms and conditions of Federal awards that may have a direct and material effect on each of the major programs.²²

The Warren Averett auditors documented their understanding of DWX's internal controls over the compliance requirements they identified as direct and material to the Research and Development Cluster, including those internal controls over the Allowable Costs and Period of Performance compliance requirements. In addition, the auditors prepared a spreadsheet that identified the sample of expenditures they selected to test both internal controls and compliance. However, the auditor's documentation for the testing of the Allowable Costs and Period of Performance compliance requirements was not sufficient to allow us to understand the work performed and the audit evidence they used as the basis for their conclusions. Specifically, the Warren Averett audit documentation did not identify:

- the supporting documents that the auditors obtained and reviewed to test internal controls and compliance of non-payroll costs;
- the procedures that the auditors performed to verify DWX's internal controls were operating effectively and to verify that DWX properly charged non-payroll costs to Federal awards; and
- the period of performance that the auditors used to verify DWX's compliance with award requirements.

²⁰ AU-C, Section 500, "Audit Evidence," paragraph .06, "Sufficient Appropriate Audit Evidence."

²¹ AU-C, Section 230, "Audit Documentation," paragraphs .08 and .09, "Documentation of the Audit Procedures Performed and Audit Evidence Obtained."

²² 2 CFR section 200.514(c) and (d).

The Warren Averett audit documentation indicated that, as part of their internal control and compliance testing, the auditors inspected DWX's supporting documents for sampled non-payroll costs. However, the auditors did not identify or describe the supporting documents, such as invoices and purchase orders, which they inspected to support their audit conclusions.

In addition, the Warren Averett audit documentation of the procedures the auditors performed on non-payroll costs did not contain enough details to demonstrate that the tests performed provided sufficient, appropriate evidence to conclude that the internal controls over the Allowable Costs compliance requirements were operating effectively. For example, the audit documentation identified that one DWX internal control involves comparing supporting documentation to a list of allowable costs before approving the costs. The Warren Averett auditors stated in their working paper that they had re-performed DWX's internal control. However, the audit documentation did not support that the Warren Averett auditors validated that DWX had performed the internal control prior to approval of the costs.

Finally, the Warren Averett auditors documented that they tested DWX's compliance with the Period of Performance compliance requirement. The audit documentation stated only that the period of performance for each sampled transaction was met. During our review of award documents, we noted that one award appeared to have a different period of performance for each order issued under the award. However, the audit documentation does not identify the period of performance for any of the sample items the auditors reviewed to verify DWX compliance with the award's period of performance. Consequently, the audit documentation does not contain sufficient, appropriate evidence of the procedures the auditors performed and the audit evidence they obtained for the review of the Allowable Costs and Period of Performance compliance requirements.

Warren Averett Did Not Include the Correct SEFA in the Reporting Package

The Warren Averett auditors did not include the correct DWX SEFA in the reporting package to reflect the adjustments made on DWX's financial statements. The Uniform Guidance states that the auditors must determine whether the SEFA is stated fairly, in all material respects, in relation to the financial statements as a whole.²³ The Uniform Guidance further states that the auditors must include an opinion, or a disclaimer of opinion, as to whether the SEFA is stated fairly in all material respects in relation to the financial statements as a whole.²⁴

²³ 2 CFR, section 200.514(b).

²⁴ 2 CFR, section 200.515(a).

During the FY 2019 single audit of DWX, the Warren Averett auditors correctly determined that adjustments to DWX's financial statements were necessary and that DWX's SEFA should reflect \$24.1 million in Federal award expenditures. As part of the adjustments, the reported FY 2019 Federal award expenditures changed from \$34.8 million to \$24.1 million. After DWX made the adjustments, the Warren Averett auditors concluded that the corrected SEFA was stated fairly, in all material respects, in relation to the financial statements as a whole. However, the reporting package sent to the Federal Audit Clearinghouse included an outdated version of the SEFA that inaccurately reported \$34.8 million in FY 2019 Federal award expenditures. As a result, we determined that the SEFA included in the reporting package did not accurately reflect the FY 2019 Federal expenditures.

Federal Agencies Cannot Rely on DWX's Single Audit Report Because the Audit Work Did Not Support the Reported Audit Opinion

Federal agencies cannot rely on DWX's single audit report because the Warren Averett audit documentation did not provide sufficient, appropriate evidence to support audit conclusions and the reported audit opinion on DWX's compliance with Federal requirements. In addition, Federal agencies cannot use the SEFA in the reporting package to adequately monitor DWX Federal awards.

Warren Averett Auditors Should Perform Additional Audit Procedures on the Cash Management, Equipment, Procurement, and Special Tests Compliance Requirements

The Warren Averett auditors should perform additional audit procedures for the review of the Cash Management, Equipment, Procurement, and Special Tests compliance requirements. Specifically, the auditors should perform additional procedures because the auditors did not obtain sufficient, appropriate evidence to support their conclusion that these compliance requirements were not direct and material.

We evaluated the justifications included in the audit documentation and reviewed additional information provided by the Warren Averett auditors and DWX management on the four compliance requirements that Warren Averett determined to be not direct and material.

- For the Cash Management compliance requirement, we requested the Warren Averett auditors provide an explanation for why the advance payments that DWX received were not subject to this requirement. The Warren Averett auditors explained that the advance payments were not at the request of DWX. However, DWX provided us with its policy

for requesting advances and confirmed to us that it did submit advance payment requests. We also selected one award and obtained copies of all of the advance payment requests during FY 2019 to verify DWX's process for advance payment requests.

- For the Equipment compliance requirement, we confirmed with both DWX management and the Warren Averett auditors that DWX purchased equipment with Federal funds. In addition, the Warren Averett auditors provided us the inventory list of all equipment purchased with Federal funds.
- For the Procurement compliance requirement, we reviewed DWX transactions and identified transactions that are procurements under Federal awards. We obtained and reviewed from DWX a description of its procurement process and details of two specific procurements.
- For the Special Tests compliance requirement, we determined that three of the five DWX Federal awards contained clauses requiring DWX to obtain approval to change personnel from specific positions. For example, one award identified that DWX must obtain written approval before adding, removing, replacing, or diverting any of the listed or specified personnel. This award also identified the following as the listed personnel who are subject to the requirement: Business Center Director, Deputy Business Center Director, and Innovation Principal.

After review of the explanations and additional information provided, we concluded that the Warren Averett auditors did not obtain sufficient, appropriate evidence for determining that these four compliance requirements are not direct and material to the FY 2019 single audit of DWX. Therefore, Warren Averett should perform and document additional audit procedures to determine whether the Cash Management, Equipment, Procurement, and Special Tests compliance requirements are direct and material to the FY 2019 single audit; perform any additional audit procedures necessary for those compliance requirements that Warren Averett determines to be direct and material; and update the FY 2019 single audit report to reflect the results of the additional audit procedures it performs.

Auditors Should Perform and Document Sufficient, Appropriate Evidence for the Review of the Allowable Costs and Period of Performance Compliance Requirements

The Warren Averett auditors should perform and document sufficient, appropriate evidence for their review of the Allowable Costs and Period of Performance compliance requirements. Specifically, the auditors should perform additional procedures because the Warren Averett auditors did not adequately document the procedures they performed or the audit evidence they obtained to support their

audit conclusions. We requested additional explanations from the Warren Averett auditors to understand the audit procedures performed for reviewing the Allowable Costs and Period of Performance compliance requirements.

The Warren Averett auditors explained to us that the supporting documents they inspected for the Allowable Costs compliance requirements depended on the nature of the specific transaction they tested. For example, if the expenditures related to payments for supplies or equipment, the supporting documents could have included purchase orders, receiving reports, and invoices. In contrast, if the nature of the expenditure was a progress payment, the auditors reviewed the related contract. In addition, the auditors verified that the sample of expenditures were paid by DWX. For the Period of Performance compliance requirement, the Warren Averett auditors stated that they compared a sample of expenditures to the period of performance information they had at the time and they did not keep that documentation for each sample. However, these descriptions of the evidence they obtained and used during the audit were not reflected in the audit documentation.

The auditors stated that, in their professional judgment, the audit documentation was sufficient and in accordance with the documentation required by auditing standards. We disagree that the audit documentation met auditing standards because auditors must identify the specific evidence they obtained, as well as the procedures they performed that led to the conclusions they reached. Without these details, the basis for Warren Averett's conclusions is not readily determinable from the audit documentation. Further, auditing standards state that, on their own, oral explanations by the auditor do not represent adequate support for the work the auditor performed or the conclusions reached. Therefore, Warren Averett should update the FY 2019 single audit documentation to provide a clear and accurate description of the procedures they performed and to identify the evidence that support the auditor's conclusions on the Allowable Costs and Period of Performance compliance requirements and update the FY 2019 single audit report to reflect the results of the additional audit procedures it performs.

Federal Agencies Cannot Use DWX's SEFA to Adequately Monitor DWX Awards

Due to the significant discrepancy between the financial statement expenditures and the SEFA, Federal agencies cannot use DWX's SEFA to adequately monitor DWX awards. We requested the Warren Averett auditors to explain why the SEFA included in the reporting package was not the corrected version, reflecting \$24.1 million in Federal award expenditures. The auditors stated that they included an inaccurate SEFA because of an administrative error, which

did not capture the corrections made to the financial statements. Therefore, Warren Averett should coordinate with DWX to update and reissue the FY 2019 reporting package, including the corrected version of the SEFA.

Recommendations, Management Comments, and Our Response

Recommendation

We recommend that the Warren Averett, LLC Partner:

- 1. Perform and document additional audit procedures to determine whether the Cash Management, Equipment and Real Property Management, Procurement and Suspension and Debarment, and Special Tests and Provisions compliance requirements are direct and material to the FY 2019 single audit, and perform any additional audit procedures necessary for those compliance requirements that Warren Averett determines to be direct and material.**
- 2. Update the FY 2019 single audit documentation to provide a clear and accurate description of the audit procedures performed and to identify the evidence that support the auditor's conclusions on the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Performance compliance requirements.**
- 3. Coordinate with DEFENSEWERX, Inc. to update and reissue the FY 2019 reporting package, including the corrected version of the Schedule of Expenditures of Federal Awards and the results of any additional audit procedures performed in response to Recommendations 1 and 2.**

Warren Averett, LLC Partner Comments

The Warren Averett Partner agreed with our recommendations and stated that Warren Averett will:

- perform and document the additional audit procedures on the Cash Management, Equipment, Procurement, and Special Tests compliance requirements;
- update the audit documentation on the Allowable Costs and Period of Performance compliance requirements; and
- coordinate with DWX to reissue the FY 2019 single audit report with the necessary updates.

The Warren Averett Partner also stated that Warren Averett will review the audit procedures completed on the FY 2020 single audit to ensure similar actions are taken.

Our Response

Comments from the Warren Averett Partner addressed the specifics of the recommendations; therefore, the recommendations are resolved but remain open. We will close the recommendations once we perform followup procedures on the FY 2019 single audit of the DWX to verify that the corrective actions were completed.

Appendix A

Scope and Methodology

We conducted this quality control review from April 2021 through December 2021 in accordance with the “Quality Standards for Inspection and Evaluation,” published in January 2012 by the Council of Inspectors General on Integrity and Efficiency. Those standards require that we adequately plan the quality control review to ensure that objectives are met and that we perform the review to obtain sufficient, competent, and relevant evidence to support the findings, conclusions, and recommendations. We believe that the evidence obtained was sufficient, competent, and relevant to lead a reasonable person to sustain the findings, conclusions, and recommendations.

The Office of Management and Budget designated the Federal Audit Clearinghouse as the repository of record for single audit reports. The Federal Audit Clearinghouse received DWX’s FY 2019 single audit report on July 16, 2020. The report identified the Research and Development Cluster as the one major program at DWX. We focused our review on the following 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
- Reporting

We conducted interviews with the Warren Averett auditors assigned to Warren Averett’s Fort Walton Beach, Florida, office, who performed the FY 2019 single audit of DWX. We reviewed Warren Averett’s audit files for its FY 2019 single audit to assess whether Warren Averett conducted the single audit in accordance with generally accepted government auditing standards and Uniform Guidance requirements. Generally accepted government auditing standards include both the Government Accountability Office’s “Government Auditing Standards” and the American Institute for Certified Public Accountants’ “Codification of Statements on Auditing Standards,” which is incorporated in the Government Auditing Standards by reference. Uniform Guidance requirements for single audits are identified in 2 CFR Part 200.

Our review included evaluating evidence of the Warren Averett auditor qualifications, independence, and quality assurance. We also reviewed all audit documentation that the Warren Averett auditors prepared to support the audit opinions on whether DWX's financial statements and its schedule of expenditures of Federal awards were fairly presented in all material respects. In addition, we reviewed all documentation that the Warren Averett auditors prepared to support the audit opinion on whether DWX complied with the compliance requirements that could have a direct and material effect on the Research and Development Cluster. Our review of Warren Averett's audit documentation on direct and material compliance requirements included analyzing audit procedures on: (1) the understanding of DWX's internal control, (2) the sampling methodologies used, and (3) the internal control and compliance testing performed. We discussed the Warren Averett audit procedures performed with the Warren Averett auditors, as necessary, to understand the audit work they performed. We reviewed additional documents provided by DWX management to better understand the audit procedures performed by Warren Averett.

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 one report discussing a single audit performed by Warren Averett. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

DoD OIG

Report No. DODIG-2018-156, "Quality Control Review of the Warren Averett, LLC, FY 2016 Single Audit of Civil Air Patrol," September 26, 2018

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 was inaccurate. We also identified deficiencies in audit documentation that Warren Averett needed to correct for future single audits. Specifically, the Warren Averett auditors did not properly document the audit sampling plan for internal control testing.

In addition, the Warren Averett auditors did not identify the planned internal control testing or distinguish the internal control testing from the compliance testing they performed. Finally, the auditors did not provide a clear description of the audit procedures they performed and the audit documentation contained inconsistent and inaccurate information.

Appendix B

Compliance Requirements

The Office of Management and Budget issues the Compliance Supplement and provides guidance to assist auditors in determining compliance requirements applicable to the audit.²⁵ The Compliance Supplement summarizes Federal requirements into 12 compliance requirements. For the Research and Development Cluster, the Compliance Supplement states that all compliance requirements are applicable, except for the following compliance requirements: Eligibility; Matching, Level of Effort, and Earmarking; Program Income; and Reporting. Auditors who perform a single audit are required to test those compliance requirements that are direct and material to the major program. The following table identifies the compliance requirements that the Warren Averett auditors determined were direct and material to the major program.

Table. Uniform Guidance Compliance Requirements that Warren Averett Identified as Direct and Material to the Major Program

| Uniform Guidance Compliance Requirements | Direct and Material |
|--|---------------------|
| Activities Allowed or Unallowed | X |
| Allowable Costs/Cost Principles | X |
| Cash Management | * |
| Eligibility | |
| Equipment and Real Property Management | * |
| Matching, Level of Effort, Earmarking | |
| Period of Performance | X |
| Procurement, Suspension, and Debarment | * |
| Program Income | |
| Reporting | |
| Subrecipient Monitoring | |
| Special Tests and Provisions | * |

* Warren Averett identified these as not direct and material and excluded them for testing. However, see the Finding for more details.

Source: DoD OIG, based on the Warren Averett audit documentation and the results of our quality control review.

²⁵ 2 CFR Part 200, Appendix XI, "Compliance Supplement," August 2019.

Management Comments

Warren Averett, LLC



January 18, 2022



Audit Oversight Director for Evaluations
Space, Intelligence, Engineering and Oversight



We have reviewed the draft report provided to us on December 6, 2021 for Project No. D2021-DEV0SO-0114 relative to our Quality Control Review of the Warren Averett, LLC FY 2019 Single Audit of DEFENSEWERX, Inc. (DWX). Regardless of whether we agree with your findings, we are willing to implement your suggested recommendations.

Therefore, during the spring of 2022, we will:

1. Perform and document additional audit procedures to determine whether the Cash Management, Equipment and Real Property Management, Procurement and Suspension and Debarment, and Special Tests and Provisions compliance requirement are direct and material to the FY 2019 single audit, and perform any additional audit procedures necessary for those compliance requirements that Warrant Averett (WA) determines to be direct and material.
2. Update the FY 2019 single audit documentation to provide the specific evidence used by WA to support our conclusions on the Activities Allowed or Unallowed, Allowable Costs/Cost Principles and Period of Performance compliance requirements.
3. Coordinate with DWX to update and reissue the FY 2019 reporting package, including the corrected version of the Schedule of Expenditures of Federal Awards and the results of any additional audit procedures performed in response to Recommendations 1 and 2.

In addition to implementing the recommendations described above, we will also review our FY 2020 single audit and ensure the similar actions are taken. We expect to have this completed no later than June 30, 2022.

Sincerely,

A handwritten signature in black ink that reads "Warren Averett, LLC".

Warren Averett, LLC.

Acronyms and Abbreviations

AU-C Codification of Statements on Auditing Standards

CFR Code of Federal Regulations

DWX DEFENSEWERX, Inc.

SEFA Schedule of Expenditures of Federal Awards

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

Whistleblower Protection safeguards DoD employees against retaliation for protected disclosures that expose possible fraud, waste, and abuse in Government programs. For more information, please visit the Whistleblower webpage at <http://www.dodig.mil/Components/Administrative-Investigations/Whistleblower-Reprisal-Investigations/Whistleblower-Reprisal/> or contact the Whistleblower Protection Coordinator at Whistleblowerprotectioncoordinator@dodig.mil

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