Office of the Inspector General
U.S. Department of Justice

Quality Control Review of the PricewaterhouseCoopers LLP Fiscal Year 2011 Single Audit of Big Brothers Big Sisters of America

Audit Division GR-50-15-006

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Chicago, Illinois 60661-2590

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Audit Partner
PricewaterhouseCoopers LLP
Two Commerce Square
2001 Market Street, Suite 1700
Philadelphia, Pennsylvania 19103

Dear Audit Partner:

The U.S. Department of Justice (DOJ), Office of the Inspector General (OIG) has completed a quality control review (QCR) of the Office of Management and Budget (OMB) Circular A-133 audit of Big Brothers Big Sisters of America (BBBSA) for the fiscal year (FY) ended June 30, 2011, performed by PricewaterhouseCoopers LLP (PwC).

Our QCR of PwC's FY 2011 audit of BBBSA and PwC's resulting report dated March 12, 2012, was initiated in May 2013. The objectives of the QCR were to: (1) determine whether the audit was conducted in accordance with applicable standards, which include *Generally Accepted Government Auditing Standards* (GAGAS) and *Generally Accepted Auditing Standards* (GAAS), and met the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; (2) identify any follow-up audit work required to support the opinions contained in the audit report; and (3) identify issues that may require federal program management's attention. In performing our review, we used the 2010 edition of the *Uniform Guide for Quality Control Reviews of A-133 Audits*, issued by the Council of Inspectors General on Integrity & Efficiency.

This QCR is related to an OIG audit report from June 2013 regarding over $23 million in grants awarded between 2009 and 2011 to BBBSA by the DOJ's Office of Justice Programs (the report can be found at https://oig.justice.gov/reports/2013/g7013006.pdf). The OIG audit found that BBBSA was in material non-compliance with the majority of grant requirements that the OIG tested. As a result of the failures and weaknesses we identified, the OIG questioned $19,462,448 in funding that the grantee had received.

Although the OIG found material non-compliance in its 2013 grant audit, in its FY 2011 A-133 audit report, PwC stated that BBBSA complied in all material respects with the laws, regulations, and grants requirements that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. PwC's report did not identify any grant-related deficiencies or internal control weaknesses.

In performing our review, which was executed independently and with a focus solely on whether PwC's work met the standards established in the QCR objectives, the OIG found that, in most instances, the audit documentation prepared by PwC was not sufficiently detailed to provide a clear understanding of the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source, and the conclusions reached. In addition, some of the audit documentation contained contradictory information. For example:

- PwC working paper EGA 9400-51930 "Reporting (Other major program)," had two pages with procedures tailored for tests of financial and performance reports specific to the programs audited. Although the results section of the working paper supported that the audit team tested the timeliness of BBBSA's financial reports, there was no indication that the auditors tested either the completeness or accuracy of the reports. It also appeared that PwC did not perform any tests related to the completeness and accuracy of BBBSA's performance reports. Moreover, the working papers contained no explanation for the difference between the stated procedures and those actually executed.

- PwC's working papers indicated that BBBSA did not have a formal timecard or time monitoring system to track employee time. Further, audit documentation indicated that BBBSA's time allocations were determined at the time the grant budgets were created, based upon BBBSA management's best estimate of expected personnel costs. However, the audit documentation concluded, without explanation, that payroll costs incurred and billed to the grant were considered fully supported. In light of the lack of a time monitoring system and BBBSA's stated method of using estimates, it is unclear how PwC auditors reached the conclusion that BBBSA had adequate supporting documentation for the payroll costs charged to its federal awards.

- According to its working papers, PwC concluded that BBBSA's monitoring of its subrecipients was adequate. The supporting evidence for PwC's conclusion consisted primarily of the auditor's review of one BBBSA subrecipient's single audit report (SAR). Further, the audit file indicated that the PwC auditor obtained the report directly from the Federal Audit Clearinghouse (FAC) database rather than attempting to select SARs or other monitoring information from BBBSA's files. We also noted that there was nothing in PwC's audit file documenting the auditor's efforts to determine how BBBSA tracked the receipt of SARs, or if BBBSA reviewed and followed up on findings in its subrecipients' SARs.[1] In addition, the audit documentation contained no information on any site visits conducted by BBBSA or the tracking, review, or testing of program reports that the subrecipients were required to submit to BBBSA. Therefore, there was insufficient information in the audit file for us to corroborate PwC's conclusion that BBBSA's subrecipient monitoring was adequate.

- According to the audit documentation, payments to subrecipients were deemed to be allowable because BBBSA had Memoranda of Understanding with the subrecipients. In addition, the audit documentation indicated that the audit team concluded that payments to subrecipients were accurate because BBBSA's payout records matched the bank statements. PwC neither documented the basis for the payments nor reviewed the documentation supporting the requests for payment submitted by the subrecipients.

- In the audit documentation, PwC stated that BBBSA drew down money on a reimbursement basis; however, there was nothing to indicate that PwC tested the amounts of reimbursement, such as comparing the amounts drawn down to expenditure records, or the timing of the reimbursements, as specified in the cash management section of the A-133 Compliance Supplement. Further, the audit documentation did not identify the specific documentation reviewed that resulted in PwC concluding that there were no exceptions to BBBSA's cash management practices.

- PwC's audit documentation stated expenditure testing covered a 12-month period of transactions. However, it appeared that the auditors limited their testing to a 9-month period, without explanation. In addition, PwC's audit documentation within the steps related to cash management contained multiple references to the Department of Health and Human Services (HHS). Because BBBSA did not expend HHS funding and PwC was not auditing HHS funding, this appeared to be an indication that language was copied from somewhere else and pasted to the file. Therefore, it was not clear whether the audit team appropriately executed its assignment specific to BBBSA and the DOJ funding expended.

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[1] This concern is highlighted by the fact that, during the course of our other single audit work, we identified a SAR from one of BBBSA's subrecipients that had been submitted to the FAC almost 2 years late.

In light of our findings that multiple audit steps and procedures were not adequately performed or documented, and supervision was not sufficient to identify the errors and omissions in the audit work and documentation, we concluded that PwC was not in compliance with government audit standards for reporting, evidence, and supervision. Further, the extent of the weaknesses we identified raises concerns that PwC may not have been in full compliance with the GAGAS standards for professional behavior and professional judgment.[2] After we brought these deficiencies to their attention, PwC management determined that its audit report dated March 12, 2012, could not be relied upon and withdrew the original report from the Federal Audit Clearinghouse (FAC) in July 2013 so that additional audit work could be performed. As a result of PwC's action, our QCR was suspended until the revised audit report was submitted to the FAC in January 2015.[3]

After reviewing PwC's remedial audit work, we accepted the revised audit of BBBSA as generally meeting the requirements of GAGAS, GAAS, and OMB Circular A-133. However, our acceptance of PwC's revised report does not negate the fact that PwC's original audit report and documentation contained extensive deficiencies. In addition to the audit documentation deficiencies discussed above, the original report showed that federal expenditures totaled $13,089,058, contained unqualified opinions, and included no findings. By contrast, the revised report shows total federal expenditures of $5,944,266, gives an adverse opinion on major program compliance, contains eight findings, and identifies both positive and negative questioned costs with an absolute value totaling $507,748.

When an auditor does not follow standards or provisions required in federal audits, that failure constitutes an act discreditable to the profession and is a violation of Rule 501 of the American Institute of Certified Public Accountants' (AICPA) Professional Standards.[4] Consequently, as we discussed with PwC management, the seriousness of the deficiencies in PwC's

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[2] According to GAGAS, Chapter 1.24, professional behavior includes auditors putting forth an honest effort in performance of their duties and professional services in accordance with the relevant technical and professional standards.

[3] The revised FY 2011 report was issued concurrently with PwC's report on its A-133 audit of BBBSA's FY 2012 financial and program activities. Although the reports were issued under the same cover, they were stand-alone documents. We reviewed only the FY 2011 report.

[4] According to Rule 501, part .04 501-3, which was in effect at the time PwC performed its audit of BBBSA, "Engagements for audits of government grants, government units or other recipients of government monies typically require that such audits be in compliance with government audit standards, guides, procedures, statutes, rules, and regulations, in addition to generally accepted auditing standards." Effective December 15, 2014, this rule was codified as section 1.400.055 of the Acts Discreditable Rule; however, the nature of the Rule remains unchanged.

performance and review of audit work and the resulting weaknesses in the original audit report that we identified in the course of our initial QCR work compels us to refer this matter to the AICPA Professional Ethics Division.

We appreciate the opportunity to review the work you performed and the courtesy extended by your staff. If you have any questions, please contact me at (312) 353-1203.

Sincerely,

Carol S. Taraszka

Carol S. Taraszka
Regional Audit Manager and
National Single Audit Coordinator

cc: Managing Director
PricewaterhouseCoopers LLP

Ralph E. Martin, Director
Office of Audit, Assessment, and Management
Office of Justice Programs

Jeffery A. Haley, Deputy Director
Audit and Review Division
Office of Audit, Assessment, and Management
Office of Justice Programs

Linda J. Taylor, Lead Auditor
Audit Coordination Branch
Audit and Review Division
Office of Audit, Assessment, and Management
Office of Justice Programs

Richard P. Theis, Assistant Director
Audit Liaison Group
Internal Review and Evaluation Office
Justice Management Division

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