Oversight Report

QUALITY CONTROL REVIEW OF BERENSON & COMPANY LLP
AND THE DEFENSE CONTRACT AUDIT AGENCY
RIVERSIDE RESEARCH INSTITUTE
FISCAL YEAR ENDED NOVEMBER 30, 1996

Report Number PO 98-6-010 April 13, 1998

Office of the Inspector General
Department of Defense

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Acronyms

DCAA	Defense Contract Audit Agency
GAO	General Accounting Office
OMB	Office of Management and Budget

April 13, 1998

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SUBJECT: Quality Control Review of Berenson & Company LLP
and the Defense Contract Audit Agency
Riverside Research Institute
Fiscal Year Ended November 30, 1996
Report No. PO98-6-010 (Project No. 8OA-9-008.01)

Introduction

We are providing this report for your information. The New York City offices of Berenson & Company LLP (Berenson), and the Defense Contract Audit Agency (DCAA), performed the coordinated single audit for Riverside Research Institute (the Institute), New York City, a nonprofit organization. The audit is required by Office of Management and Budget (OMB) Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions." For the fiscal year ended November 30, 1996, the Institute reported total Federal expenditures of $4,704,781, representing $3,384,735 for the Department of Defense (DoD) and $1,320,046 for other Federal agencies.

The Berenson audit report, dated February 10, 1997, issued an unqualified opinion on the financial statements, Schedule of Federal Awards, and the reports on internal controls and compliance requirements. The DCAA issued an unqualified opinion on its incurred cost audit report dated September 17, 1997. The DCAA also issued on September 18, 1997, a report on Internal Controls Used in Administering Research and Development Program that reported instances of significant deficiencies considered to be reportable conditions. Specifically, these conditions related to Cash Management and the Institute's failure to remit drawdown funds to subcontractors on a timely basis.

Berenson issued positive and negative assurance statements on compliance with general requirements. Positive assurance means that, with respect to the items tested, the results of auditors' procedures disclosed no material instances of noncompliance. Negative assurance means that, with respect to the items not tested, nothing came to the auditors' attention that caused them to believe that the Institute has not complied in all material respects.

The auditors also obtained an understanding of the internal controls related to the financial statements and Federal awards. The audit report describes the auditors' scope of work in obtaining that understanding and in assessing control risk. The report on internal controls further describes the significant internal controls and control structure, including reportable conditions, material weaknesses, and controls that provide reasonable assurance that Federal awards are being managed in accordance with applicable laws and regulations.

Quality Control Review Results

The OMB Circular A-133 audit performed by Berenson and DCAA meets the applicable guidance and regulatory requirements in the OMB Circular A-133 and its related Compliance Supplement, which incorporate the Government Auditing Standards and Generally Accepted Auditing Standards.

Quality Control Review Objective

The objective of a quality control review is to ensure that the audit was conducted in accordance with applicable standards and meets the auditing requirements of OMB Circular A-133. As the Federal oversight agency for the Institute, we conducted a quality control review of Berenson and DCAA audit working papers for their audit of the Institute. We focused our review on the following qualitative aspects of the audit: due professional care, planning, supervision, independence, quality control, internal controls, substantive testing, general and specific compliance testing, and the Schedule of Federal Awards.

We reviewed the most recent peer review letter issued for Berenson, by LaPorte, Sehrt, Romig & Hand, Certified Public Accountants & Consultants, on September 11, 1996. The peer review found that Berenson met the objectives of the quality control review standards established by the American Institute of Certified Public Accountants and that the standards were being complied with during the fiscal year ended June 30, 1996. However, the peer review letter contained recommendations for improvements in the area of supervision.

Scope and Methodology

We used the 1991 edition of the Uniform Quality Control Guide for Single Audits (the Guide), which was approved by the President's Council on Integrity and Efficiency as guidance for performing the quality control review procedures. The Guide is organized by the general and field work audit standards and the required elements of a single audit. The Guide is further divided into the substantive work performed during the audit of the financial statements and the specific program compliance testing for major programs. In addition, we supplemented the Guide to include additional review of transaction testing. Our review was conducted from December 15 through December 19, 1997.

Our quality control review of the audit working papers covered areas related to the financial statements and the research and development program. The research and development program expenditures totaled approximately $4.7 million and accounted for 100 percent of total Federal award expenditures at the Institute.

Results of Prior Quality Control Reviews

We have not previously conducted a quality control review of Berenson & Company, LLP.

Background

The Inspector General Act of 1978, Public Law 95-452, prescribes the duties and responsibilities of that office. In implementing those responsibilities, the Inspector General is required to "take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General."

The Single Audit Act (the Act) of 1984 (Public Law 98-502) was intended to improve the financial management of state and local governments whose total annual expenditures are $100,000 or more with respect to Federal financial assistance programs; to establish uniform requirements for audits of Federal financial assistance; to promote efficient and effective use of audit resources; and to ensure that Federal departments and agencies rely on and use the audit work done under the Act, to the maximum extent practicable.

The Single Audit Act Amendments of 1996 (the Amendments), based on 12 years of experience under the 1984 Act, are intended to strengthen the usefulness of single audits by increasing the audit threshold from $100,000 to $300,000 in Federal financial assistance before an audit is required under the Act; by selecting programs to be audited on the basis of risk assessment rather than the amount of funds involved; and

by improving the contents and timeliness of single audits. The Amendments also bring nonprofit organizations, previously covered by similar requirements in the OMB Circular A-133, under the Single Audit Act provisions.

The OMB Circular A-133 establishes the Federal audit and reporting requirements for nonprofit and educational institutions whose Federal awards are or exceed $100,000. It provides that an audit made in accordance with the Circular shall be in lieu of any financial audit required under individual Federal awards. An agency must rely on the audit to the extent that it provides the information and assurances that an agency needs to perform its overall responsibilities. The coordinated audit approach provides for the independent public accountant, Federal auditor, and other non-Federal auditors to consider each other's work in determining the nature, timing, and extent of their respective audit procedures. The Circular also requires that the cognizant agency obtain or conduct quality control reviews of selected audits made by non-Federal auditors and provide the results, when appropriate, to other interested organizations. The revised OMB Circular A-133 was issued on June 24, 1997, to incorporate the changes in the Single Audit Act Amendments of 1996. Its provisions apply to audits of fiscal years beginning after June 30, 1996.

Discussion of Results

During our quality control review, we reviewed and took no exception to the working papers supporting the following reports:

Independent Auditor's Report. The auditor is required to obtain reasonable assurance about whether the financial statements are free of material misstatement. We reviewed the audit program and the testing of evidence to determine whether testing was sufficient, based on assessment of control risk, to warrant the conclusion reached and to determine whether the working papers supported the conclusion.

Independent Auditor's Report on Schedule of Federal Awards. The auditor is required to subject the schedule to the auditing procedures applicable to the audit of the financial statements and to ensure that the amounts are fairly stated in relation to the basic financial statements. Our review was included in the steps of evaluation of the audit working papers related to the Independent Auditors' Report.

Independent Auditor's Report on Internal Control Structure Based on an Audit of Consolidated Financial Statements Performed in Accordance with Government Auditing Standards. The auditor is required to obtain an understanding of the internal control structure that is sufficient to plan the audit and to assess control risk for the assertions embodied in the financial statements. We reviewed the audit program for the appropriate procedures, the working paper documentation, and the substantive testing performed.

Independent Auditor's Report on Internal Control Structure Used in Administering Federal Awards. The auditor is required to obtain an understanding of the internal control structure to assess control risk to determine whether the auditor intends to place reliance on the internal control structure. The auditor must perform tests of controls to evaluate the effectiveness of the design and operation of the policies and procedures in preventing or detecting material noncompliance, to review the system for monitoring subrecipients and obtaining and acting on subrecipient audit reports, and to determine whether controls are effective to ensure that direct and indirect costs are calculated and billed as required by the Compliance Supplement. We reviewed the audit program for the appropriate procedures, the working paper documentation, and the test of controls performed.

Independent Auditor's Report on Compliance with Laws, Regulations, Contracts and Grants Based on an Audit of Consolidated Financial Statements Performed in Accordance with Government Auditing Standards. The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect on the determination of financial statement amounts. We reviewed the audit program for the appropriate procedures, the working paper documentation, its support, and the compliance tests performed.

Independent Auditor's Report on Compliance With General Requirements Applicable to Federal Awards Programs. The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect on any of its major Federal programs. General requirements are those that could have a material effect on the recipient's financial statements including those prepared for Federal programs. The auditors' procedures were limited to those prescribed in the OMB Circular A-133 Compliance Supplement. We reviewed the audit program for the appropriate procedures, compared the audit program steps to those in the Compliance Supplement to make sure that all areas were audited, reviewed the working paper documentation and its support, reviewed the compliance tests performed, and evaluated selected compliance items.

Independent Auditor's Report on Compliance With Specific Requirements Applicable to Major Federal Award Programs. The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect on its major Federal programs, including Types of Services Allowed or Unallowed; Eligibility; Matching, Level of Effort, and/or Earmarking Requirements; Special Reporting Requirements; and Special Tests and Provisions. We reviewed the audit program for the appropriate procedures, compared the audit program steps to those in the Compliance Supplement to make sure all areas were audited, reviewed the working paper documentation and its support, reviewed the compliance tests performed, and re-evaluated selected compliance items.

Schedule of Findings and Questioned Costs. The auditor is required to report all instances of material noncompliances in the audit report. We reconciled the findings in the working papers to the audit report to make sure that the report includes all findings identified in the working papers and that the findings are properly supported. A complete listing of the findings are in Enclosure 1.

Comments

Because this report contains no findings or recommendations, written comments are not required. We appreciate the courtesies extended during our review. If you have questions on this report, please contact Ms. Barbara Smolenyak, Program Director, at (703) 604-8761. The report distribution is in Enclosure 2.

Donald E. Davis
Deputy Assistant Inspector General
for Audit Policy and Oversight

Enclosures

Riverside Research Institute
Schedule of Findings and Questioned Costs
Fiscal Year Ended November 30, 1996

I. Berenson & Company LLP

Audit Report Page No.	Description	Questioned Costs	Resolution Agency
25-26	Noncompliance With OMB Circular A-110 Cash Management Requirements for grants	$226,851	DoD

II. Defense Contract Audit Agency

Audit Report	Description	Questioned Costs	Resolution Agency
2211-97B110503225	Noncompliance With OMB Circular A-110 Cash Management Requirements for grants	N/A	DoD

Enclosure 1

Riverside Research Institute
Fiscal Year Ended November 30, 1996

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Enclosure 2

Evaluation Team Members

This report was prepared by the Financial, Performance and Single Audits Division, Office of the Deputy Assistant Inspector General for Audit Policy and Oversight, DoD.

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