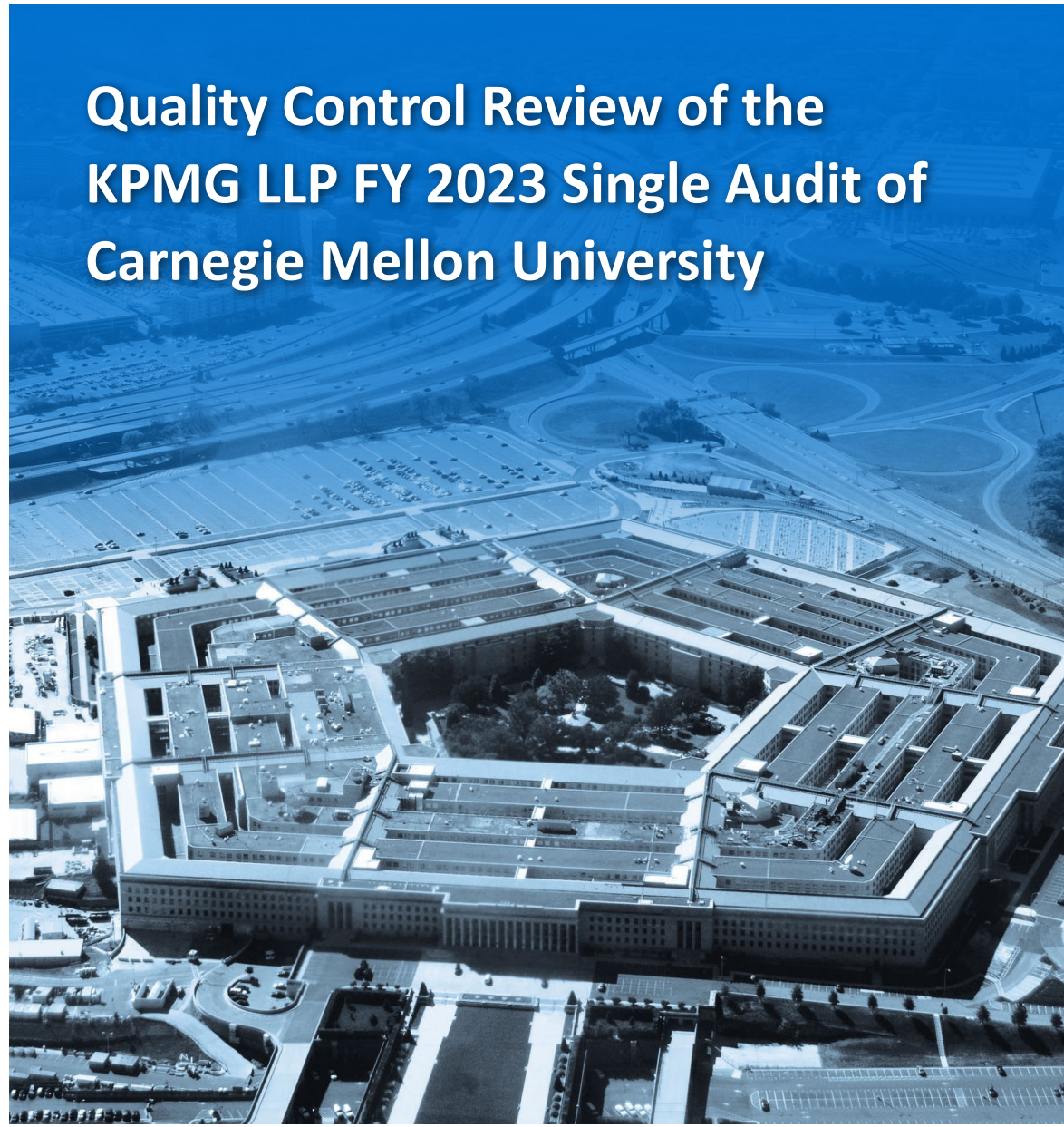




INSPECTOR GENERAL

U.S. Department of Defense

SEPTEMBER 30, 2024



Quality Control Review of the KPMG LLP FY 2023 Single Audit of Carnegie Mellon University

INDEPENDENCE ★ INTEGRITY ★ EXCELLENCE ★ TRANSPARENCY





Results in Brief

Quality Control Review of the KPMG LLP FY 2023 Single Audit of Carnegie Mellon University

September 30, 2024

Objective

The objective of this quality control review was to assess whether KPMG LLP performed the FY 2023 single audit of Carnegie Mellon University (Carnegie Mellon) 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 fiscal year are subject to the Single Audit Act Amendments of 1996 (the Single Audit Act), Pub. L. No. 104-156, and 2 C.F.R. Part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (Uniform Guidance). 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 consistency and uniformity among Federal agencies for the audit of non-Federal entities expending Federal awards.

Carnegie Mellon is a private, not-for-profit, educational and research institution. Carnegie Mellon enrolled approximately 16,800 students in the fall of 2022 and grants approximately 4,800 bachelor's, master's, and doctoral degrees each year. Carnegie Mellon operates the Software Engineering Institute, which is a federally funded research and development center sponsored by the DoD. The Software

Background (cont'd)

Engineering Institute conducts research and development in software engineering, systems engineering, cybersecurity, and other areas of computing. In FY 2023, Carnegie Mellon spent \$474.1 million in Federal awards, including \$412.9 million on one major program, the Research and Development Cluster. Of the \$412.9 million, Carnegie Mellon spent \$250.9 million on DoD awards. KPMG LLP performed Carnegie Mellon's FY 2023 single audit.

Review Results

KPMG LLP complied with generally accepted government auditing standards and Uniform Guidance requirements when it performed the FY 2023 single audit of Carnegie Mellon.





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

September 30, 2024

Managing Director
KPMG LLP

SUBJECT: Quality Control Review of the KPMG LLP FY 2023 Single Audit of
Carnegie Mellon University (Report No. DODIG-2024-142)

This final report provides the results of the DoD Office of Inspector General's quality control review. We are providing this report for information and use. This report does not contain recommendations. We provided a discussion draft of this report to KPMG LLP representatives. They concurred with the discussion draft and provided no additional comments. Therefore, we are publishing this report in final form.

We appreciate the cooperation and assistance received during the quality control review. If you have any questions, please contact [REDACTED]

FOR THE INSPECTOR GENERAL:

A handwritten signature in black ink, appearing to read "Randolph R. Stone", is positioned below the text "FOR THE INSPECTOR GENERAL:". The signature is stylized and cursive.

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 assess whether KPMG LLP (KPMG) performed the FY 2023 single audit of Carnegie Mellon University (Carnegie Mellon) in accordance with generally accepted government auditing standards (GAGAS) and Federal requirements for single audits.¹ Appendix A contains our scope and methodology. Appendix B lists the compliance requirements that the KPMG auditors identified as direct and material to Carnegie Mellon's major program for the fiscal year that ended on June 30, 2023.

Background

Non-Federal entities that expend Federal funds of \$750,000 or more in a fiscal year are subject to the Single Audit Act Amendments of 1996 (Single Audit Act), Pub. L. No. 104-156, and 2 C.F.R. Part 200 (Uniform Guidance). 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 consistency and uniformity among Federal agencies for the audit of non-Federal entities expending Federal awards.

In accordance with the Uniform Guidance, non-Federal entities that expend Federal funds of \$750,000 or more in a fiscal year must have an annual single or program-specific audit performed in accordance with GAGAS. Non-Federal entities must also submit a complete single audit reporting package to the Federal Audit Clearinghouse.² A single audit includes an audit of the non-Federal entity's financial statements and Federal awards. Auditors performing a 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 determine whether the non-Federal entity complied with Federal laws and 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 quality control review of Carnegie Mellon's FY 2023 single audit satisfies this requirement.

¹ Government Accountability Office, "Government Auditing Standards," July 2018 (Updated April 2021). GAGAS incorporates the American Institute of Certified Public Accountants "Codification of Statements on Auditing Standards." Subpart F of 2 C.F.R. Part 200 identifies the Federal requirements for single audits.

² The reporting package includes the auditor's reports, financial statements, schedule of expenditures of Federal awards, summary schedule of prior audit findings, and a corrective action plan, as 2 C.F.R. 200.512(c) requires. The Office of Management and Budget designated the Federal Audit Clearinghouse as the repository of record for single audit reports. As 2 C.F.R. 200.512(g) requires, the Federal Audit Clearinghouse 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.

Carnegie Mellon Is a Not-for-Profit Educational and Research Institution

Carnegie Mellon is a private, not-for-profit, educational and research institution. Carnegie Mellon enrolled approximately 16,800 students in the fall of 2022 and grants approximately 4,800 bachelor's, master's, and doctoral degrees each year. Carnegie Mellon operates the Software Engineering Institute, which is a federally funded research and development center sponsored by the DoD. The Software Engineering Institute conducts research and development in software engineering, systems engineering, cybersecurity, and other areas of computing. In FY 2023, Carnegie Mellon spent \$474.1 million in Federal awards, including \$412.9 million on one major program, the Research and Development Cluster.³ Of the \$412.9 million, Carnegie Mellon spent \$250.9 million on DoD awards.

KPMG LLP Performed the Single Audit

KPMG, which provides advisory, audit, and tax services, performed the FY 2023 single audit of Carnegie Mellon. As required by GAGAS, KPMG is responsible for establishing and maintaining a system of quality control. The system of quality control must provide reasonable assurance that the audit organization and its personnel comply with professional standards and applicable legal and regulatory requirements.⁴ KPMG must also obtain an external peer review of its system of quality control conducted by reviewers independent of the audit organization.⁵ The most recently published external peer review report concluded that KPMG suitably designed and complied with its system of quality control for its accounting and auditing practice.⁶ Auditors in the KPMG office in Pittsburgh, Pennsylvania, performed the FY 2023 single audit of Carnegie Mellon.

Review Results

We determined that KPMG complied with GAGAS and Uniform Guidance requirements when it performed the FY 2023 single audit of Carnegie Mellon. We used the Council of the Inspectors General on Integrity and Efficiency (CIGIE) 2021 edition of the “Guide for Quality Control Reviews of Single Audit Reports” (CIGIE Guide) to perform our review. The CIGIE Guide identifies audit procedures that auditors must perform and document during the single audit to meet GAGAS and Uniform Guidance requirements. We reviewed KPMG audit documentation, analyzed the nature and extent of KPMG’s audit procedures, and verified whether KPMG obtained sufficient evidence to support its conclusions and audit report opinion. Specifically, we verified whether KPMG complied with the requirements for each of the following aspects of the FY 2023 single audit of Carnegie Mellon.

- Qualification of auditors

³ 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.

⁴ Government Auditing Standard 5.02, “Quality Control and Assurance,” July 2018 (Updated April 2021).

⁵ Government Auditing Standard 5.60, “External Peer Review,” July 2018 (Updated April 2021).

⁶ Grant Thornton, “Report of the Firm’s System of Quality Control,” November 20, 2023.

- Auditor independence
- Due professional care
- Planning and supervision
- Audit follow-up
- Determination of direct and material compliance requirements
- Internal control and compliance testing
- Schedule of expenditures of Federal awards
- Reporting

Appendix A

Scope and Methodology

We conducted this quality control review from March 2024 through September 2024 in accordance with the CIGIE “Quality Standards for Inspection and Evaluation,” published in December 2020. Those standards require that we adequately plan and perform 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 we obtained is sufficient, competent, and relevant to lead a reasonable person to sustain the conclusions.

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 Carnegie Mellon’s FY 2023 single audit report on January 26, 2024. The report identified two major programs at Carnegie Mellon—the Research and Development Cluster and the Student Financial Assistance Cluster. We limited our review to the Research and Development Cluster because the DoD did not expend any funds in the Student Financial Assistance Cluster. We reviewed the single audit of Carnegie Mellon using the CIGIE Guide and focused our review on the following aspects of the single audit.

- Qualification of auditors
- Auditor independence
- Due professional care
- Planning and supervision
- Audit follow-up
- Determination of direct and material compliance requirements
- Internal control and compliance testing
- Schedule of expenditures of Federal awards
- Reporting

We reviewed KPMG’s audit files for the FY 2023 single audit to assess whether the auditors conducted the single audit in accordance with GAGAS and Uniform Guidance requirements. GAGAS incorporates the American Institute for Certified Public Accountants “Codification of Statements on Auditing Standards” by reference. Requirements for single audits are identified in 2 C.F.R. Part 200.

Our review included:

- evaluating evidence of KPMG’s independence, auditor qualifications, and latest external peer review;
- reviewing audit documentation that the KPMG auditors prepared to support the audit opinions on whether Carnegie Mellon’s financial statements and its schedule of expenditures of Federal awards were fairly presented in all material respects;
- verifying that the KPMG auditors supported their determination on the compliance requirements they identified as direct and material to the major program; and
- reviewing all audit documentation that the KPMG auditors prepared to support the audit opinion on whether Carnegie Mellon complied with the compliance requirements that could have a direct and material effect on the Research and Development Cluster.

In addition, our review of KPMG audit documentation on direct and material compliance requirements included analyzing audit procedures that the auditors performed to:

(1) understand Carnegie Mellon’s internal controls, (2) select samples for testing, and (3) test the internal controls and compliance with Federal requirements.

We held discussions with the KPMG auditors assigned to the Pittsburgh, Pennsylvania, office to understand and verify the audit work they performed as part of their FY 2023 single audit of Carnegie Mellon. Appendix B lists the compliance requirements that the KPMG auditors identified as direct and material to Carnegie Mellon’s Research and Development Cluster for the fiscal year that ended on June 30, 2023.

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 KPMG single audits. During the last 5 years, the DoD OIG did not issue a report involving a single audit of Carnegie Mellon. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

DoD OIG

Report No. DODIG-2020-002, "Quality Control Review of the KPMG LLP FY 2017 Single Audit of the Johns Hopkins University," October 9, 2019

KPMG generally complied with auditing standards and Uniform Guidance requirements when it performed the FY 2017 single audit of the Johns Hopkins University. However, we identified deficiencies in the documentation of KPMG's sampling methodology and its basis for not performing planned audit procedures on a direct and material compliance requirement. We recommended that KPMG correct the deficiencies in future audits.

Appendix B

Compliance Requirements

Appendix XI of the Uniform Guidance (the Compliance Supplement) provides guidance to assist auditors in determining compliance requirements applicable to Federal programs.⁷ 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 Eligibility; Matching, Level of Effort, Earmarking; Program Income; and Reporting compliance requirements. Auditors who perform a single audit are required to test the compliance requirements that are direct and material to the major program. The following table identifies the compliance requirements that the KPMG auditors determined were direct and material to the Research and Development Cluster.

Table. Uniform Guidance Compliance Requirements That the KPMG Auditors Identified as Direct and Material to the Research and Development Cluster

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

Source: The DoD Office of Inspector General based on KPMG's audit documentation.

⁷ 2 C.F.R. Part 200, Appendix XI, "Compliance Supplement," May 2023.

Acronyms and Abbreviations

CIGIE Council of the Inspectors General on Integrity and Efficiency

GAGAS Generally Accepted Government Auditing Standards

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

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