



**DEFENSE CONTRACT AUDIT AGENCY**  
**AUDIT REPORT NO. 6701-2007G11070001**



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**SUBJECT:** Report on Audit of Carnegie Mellon University and The Software Engineering Institute's Accounting System and Related Internal Controls

**CONTRACTOR:** Carnegie Mellon University and  
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**REPORT RELEASE RESTRICTIONS:** See Page 5

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## **SUBJECT OF AUDIT**

We have examined Carnegie Mellon University (CMU) and The Software Engineering Institute's (SEI) control environment and overall accounting system controls as of August 15, 2008, to assure CMU and SEI's accounting system and related internal controls:

- comply with applicable laws and regulations;
- are effective over compliance with applicable laws and regulations; and
- are adequate and operating effectively.

CMU and SEI are responsible for establishing and maintaining an adequate accounting system. Our responsibility is to express an opinion on the adequacy of the control environment and the overall accounting system controls based on our examination.

## **SCOPE OF AUDIT**

We conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we obtain a sufficient understanding of internal controls to plan our examination and determine the nature, timing, and extent of tests to be performed. An examination of internal controls includes:

- identifying relevant system control objectives and associated control activities;
- obtaining an understanding of all applicable components of internal control for the identified control objectives and activities;
- determining if the internal controls are adequate and in operation; and
- assessing control risk to use as a basis for planning the nature, timing, and extent of substantive testing in other attestation audits.

We evaluated the control environment and the overall accounting system controls using the applicable requirements contained in the:

- Federal Acquisition Regulation (FAR);
- Defense FAR Supplement (DFARS);
- Office of Management and Budget (OMB) Circulars A-21 and A-110;
- Applicable Cost Accounting Standards (CAS); and
- Control Objectives for Information and Related Technologies.

Our examination specifically tested the control environment and the accounting system's internal control procedures associated with the following control objectives:

- management's integrity and ethical values;
- independence of the board of directors/audit committee;

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- structural organization for planning, directing, and controlling operations;
- management's assignment of authority and responsibility;
- management's monitoring/analyzing of financial resources;
- design of the overall accounting system; and
- assignment of costs to cost objectives.

Test procedures were applied from December 20, 2007 to July 11, 2008.

We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over the accounting system to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

**RESULTS OF AUDIT**

In our opinion, the control environment and the overall accounting system and related internal control policies and procedures of CMU and SEI are adequate.

As a result of control risk assessments, our audit effort in the following areas will be decreased: contract pricing, incurred material cost, incurred labor cost, incurred indirect and other direct cost, contract reporting, contract billing, and contract close-out.

We examined only the control environment and the overall accounting system. Accordingly, we express no opinion on CMU and SEI's system of internal controls taken as a whole.

We discussed the results of our examination with Ms. Christine Lamanna, Manager Cost Analysis and Audits, in an exit conference held on August 28, 2008.

**UNIVERSITY ORGANIZATION AND SYSTEMS**

1. Organization

Carnegie Mellon University (CMU) is a major research university. CMU has contracts and grants with the Department of Defense, National Science Foundation, Department of Health and Human Services, Department of Energy, Department of Education, and National Aeronautics and Space Administration.

The Software Engineering Institute (SEI) is a semi-autonomous unit of CMU organized for advanced research and instruction to advance the software engineering practice. SEI works with Government, military, industrial and academic affiliates to create and communicate developments in software engineering technology. Established as a Federally Funded Research and Development Center (FFRDC), SEI is primarily funded by the Defense Advanced Research Projects Agency (DARPA).

During the year ended June 30, 2007 and June 30, 2008, CMU and SEI have received approximately \$260 million and \$256 million in revenue, respectively, from the Federal Government. The typical grant or contract awarded to CMU is cost-type.

2. Overall Accounting System

CMU uses an Oracle accounting system, which was updated to the 11i version in May 2006. The Oracle accounting system is a job cost fund accounting system. Each contract and grant is assigned a unique job number. Several job numbers may be assigned to a contract or grant if it involves a number of separate phases or if it is being performed by several University departments. This system identifies specific activities, specific objectives, and classifies revenues and expenditures to various funds that include general, loan, endowment, plant, and agency funds. CMU uses the accounting data contained in the Oracle accounting system, which is downloaded into the CRIS system for calculation of indirect cost rates.

CMU follows OMB Circulars A-21 and A-110 for purposes of identifying and accumulating costs chargeable to Government contracts and grants. CMU's fiscal year is July 1 through June 30.

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