Patient-Centered Outcomes Research Institute: Review of the Audit of the Financial Statements for FY 2019

This report presents the results of our review of the Patient-Centered Outcomes Research Institute's (PCORI) fiscal year 2019 financial statement audit. PCORI was created in 2010 by the Patient Protection and Affordable Care Act (PPACA) as a federally funded, nonprofit corporation that is neither an agency nor establishment of the United States government. According to PPACA, PCORI's purpose is to assist patients, clinicians, purchasers, and policymakers in making informed health decisions by advancing the quality and relevance of evidence concerning the manner in which diseases, disorders, and other health conditions can effectively and appropriately be prevented, diagnosed, treated, monitored, and managed through research and evidence synthesis.

PPACA requires PCORI to obtain an annual financial statement audit from a private entity with expertise in conducting financial audits and requires the Comptroller General of the United States to annually review the audit of PCORI's financial statements and report the results to the Congress.

PCORI received an unmodified opinion from an independent public accounting firm (IPA) on its fiscal years 2019 and 2018 financial statements. The IPA found that PCORI’s financial statements were presented fairly, in all material respects, in accordance with U.S. generally

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4PCORI was established as a nonprofit corporation subject to the District of Columbia Non-Profit Corporation Act and organized within the meaning of sections 501(c)(1) and 501(l) of the Internal Revenue Code of 1986, as amended.


The IPA also reported that for fiscal year 2019, it did not identify any (1) deficiencies in internal control over financial reporting that the IPA considered to be material weaknesses or (2) reportable noncompliance with selected provisions of laws, regulations, contracts, and grant agreements it tested. In addition, it reported that it conducted its audit and prepared its report in accordance with U.S. generally accepted government auditing standards. PCORI did not disagree with the IPA report’s conclusions.

Objective, Scope, and Methodology

Our objective was to review the financial audit of PCORI’s fiscal year 2019 financial statements. To satisfy this objective, we performed the following procedures:

- We read and considered the following with respect to the IPA’s independence, objectivity, and qualifications:
  - the results of the IPA’s most recent peer review, dated December 5, 2019, which indicated a passing rating;
  - the request for proposal PCORI sent out when seeking an audit organization to conduct the audit of its financial statements;
  - the proposal that the IPA submitted;
  - the IPA’s certification of independence;
  - the engagement letter between the IPA and PCORI, which described the IPA’s and PCORI’s responsibilities and set forth the scope and objectives of the audit service;
  - résumés of key audit team members; and
  - documentation related to the continuing professional education of the IPA staff members assigned to the PCORI audit.

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6PCORI’s financial statements consist of the statements of financial position, statements of activities, statements of cash flows, statements of functional expenses, and accompanying notes to the financial statements.

7A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

8U.S. generally accepted government auditing standards (GAGAS), issued by the Comptroller General of the United States, incorporate U.S. generally accepted auditing standards and constitute the professional standards under which PCORI’s financial statement audit was to be performed. For an audit of financial statements performed in accordance with GAGAS, the auditor is required to report on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on the audit. GAGAS does not require the auditor to express opinions on the effectiveness of internal control over financial reporting or compliance.

9GAGAS requires each audit organization to have an external peer review conducted at least once every 3 years by reviewers independent of the organization being reviewed. The external peer review should determine whether, during the period under review, the reviewed audit organization’s internal quality control system was suitably designed and whether quality control policies and procedures were being complied with to provide the audit organization with reasonable assurance that it conforms with applicable professional standards.

10There are two types of peer reviews: system reviews and engagement reviews. System reviews focus on an audit organization’s system of quality control, while engagement reviews focus on work performed on particular selected engagements. An audit organization can receive a rating of pass, pass with deficiency(ies), or fail. The IPA’s audit organization received a rating of pass on its system of quality control.

11An engagement letter describes the objectives and scope of the work performed and includes a reference to the professional standards governing the conduct of the engagement.
We analyzed key audit planning documentation focusing on the IPA’s assessment of the risk of material misstatement in PCORI’s financial statements, the audit procedures developed in response to this assessment, and the key audit completion documents summarizing the results and conclusions that the IPA reached.

We read PCORI’s fiscal years 2019 and 2018 financial statements, the IPA’s audit report on the financial statements, and the IPA’s report on internal control over financial reporting and on compliance. We also met with IPA representatives and PCORI management officials to discuss matters pertinent to our objective.

Our review of PCORI’s fiscal year 2019 financial statement audit, as differentiated from an audit of the financial statements, was not intended to enable us to express, and we do not express, an opinion on PCORI’s financial statements or conclude on the effectiveness of its internal control over financial reporting. Furthermore, we do not express an opinion on PCORI’s compliance with laws, regulations, contracts, and grant agreements. The IPA is responsible for its reports on PCORI dated March 2, 2020, and the conclusions expressed therein.

We conducted this performance audit from January 2020 through March 2020 in accordance with U.S. generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

No Significant Issues Identified Related to the Audit of PCORI’s Financial Statements for Fiscal Year 2019

Based on the limited procedures we performed regarding the IPA’s financial audit of PCORI’s fiscal year 2019 financial statements, we did not identify any significant issues related to the financial statement audit that we believe require attention. Had we performed additional procedures, other matters might have come to our attention that we would have reported.

Agency Comments and Third-Party Views

We provided a draft of this report to PCORI and the IPA for review and comment. PCORI’s Director of Finance and an IPA partner responded that they had no questions or comments on our report.

We are sending copies of this report to the Interim Executive Director of the Patient-Centered Outcomes Research Institute and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.
If you or your staffs have any questions about this report, please contact me at (202) 512-2623 or davisbh@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made key contributions to this report include Ted Hu (Assistant Director), Arsenio Jones, and Brian Koning.

Beryl H. Davis  
Director  
Financial Management and Assurance
List of Committees

The Honorable Charles E. Grassley
Chairman
The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate

The Honorable Lamar Alexander
Chairman
The Honorable Patty Murray
Ranking Member
Committee on Health, Education, Labor, and Pensions
United States Senate

The Honorable Frank Pallone, Jr.
Chairman
The Honorable Greg Walden
Republican Leader
Committee on Energy and Commerce
House of Representatives

The Honorable Richard Neal
Chairman
The Honorable Kevin Brady
Ranking Member
Committee on Ways and Means
House of Representatives

(Job Code 104011)