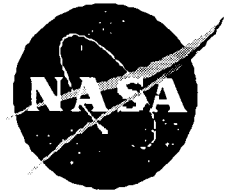


June 8, 2005



Audit Oversight

Quality Control Review of
R. J. Ricciardi, Inc. Certified Public Accountant,
Office of Management and Budget
Circular A-133 Audit of the American
Technology Alliances Fiscal Year
Ended December 31, 2002
(Report No. IG-05-019)

National Aeronautics and Space Administration
Office of Inspector General

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Acronyms

AICPA	American Institute of Certified Public Accountants
AmTech	American Technology Alliances
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
NASA	National Aeronautics and Space Administration
OIG	Office of Inspector General
OMB	Office of Management and Budget
R&D	Research and Development

Office of Inspector General
Washington, DC 20546-0001



Mr. R. J. Ricciardi
R. J. Ricciardi, Inc. Certified Public Accountant

SUBJECT: Quality Control Review of R. J. Ricciardi, Inc. Certified Public Accountant, Office of Management and Budget Circular A-133 Audit of the American Technology Alliances Fiscal Year Ended December 31, 2002 (Report No. IG-05-019 [Assignment No. A-05-009-00])

We are providing this report for your information and use. The audit firm of R. J. Ricciardi, Inc. Certified Public Accountant (R. J. Ricciardi) performed a single audit of the American Technology Alliances (AmTech) for the fiscal year (FY) ended December 31, 2002 (FY 2002). Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires the audit.

Background. AmTech, located in Redwood City, California, was incorporated in 1990 as a nonprofit, tax-exempt, California corporation. AmTech is primarily dedicated to public/private sector collaboration by facilitating research and development (R&D) partnerships between the public and private sectors to enhance U.S. economic competitiveness. AmTech expended \$588,725 in Federal awards under the R&D major program during FY 2002, all of which was identified as National Aeronautics and Space Administration (NASA) awards.

R. J. Ricciardi, located in San Rafael, California, has provided OMB Circular A-133 audit services to AmTech since at least 1997. However, during FY 1999 and FY 2000, single audit services were performed by another audit firm.

Quality Control Review Objectives. As the oversight agency for audit of AmTech, the NASA Office of Inspector General (OIG) performed a quality control review of the single audit report and supporting working papers for AmTech's FY 2002 single audit. The objectives of our quality control review were to determine whether the audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and the auditing and reporting requirements of OMB Circular A-133 and its related Compliance Supplement (the Supplement). OMB issued the Supplement to assist auditors in meeting the requirements of OMB Circular A-133. The scope and methodology for our review is in Appendix A.

Review Results. R. J. Ricciardi did not prepare the single audit reporting package in accordance with GAGAS and the requirements identified in OMB Circular A-133 (see Appendix B). R. J. Ricciardi's report on compliance with requirements applicable to major programs incorrectly referred to a reportable condition. As a result, R. J. Ricciardi's report on compliance with requirements applicable to AmTech's major

program was stated incorrectly. In addition, we found that the data collection form, which is part of the required single audit reporting package, was not completed correctly in that all of AmTech's direct awards were not properly identified.

Finding A. Incorrect Report on Compliance With Requirements Applicable to Major Programs. R. J. Ricciardi's report on compliance with requirements applicable to the major program was written incorrectly. Specifically, R. J. Ricciardi's opinion on compliance states that AmTech complied in all material respects with the compliance requirements, "except for the reportable condition" described on the schedule of findings and questioned costs. Reportable conditions relate to internal controls, not compliance. Therefore, the auditors did not follow proper reporting requirements.

According to OMB Circular A-133 §__.505(c), auditors must opine on whether the auditee complied with laws, regulations, and the provisions of the contracts or grant agreements which could have a direct and material effect on each major program. In addition, OMB Circular A-133 states the auditors must issue a report on internal controls over compliance that includes, where applicable, a statement that reportable conditions related to internal controls were disclosed by the audit. Reportable conditions involve matters relating to significant deficiencies in the design or operation of internal controls over compliance.

If the auditor identifies a noncompliance with laws, regulations, and provisions of contract or grant agreements, the report on compliance should mention the noncompliance. For a material noncompliance, the auditor's opinion on compliance over major programs would be qualified. Otherwise, the auditor renders an unqualified opinion. In both cases, the auditor describes the noncompliance in the schedule of findings and questioned costs.

R. J. Ricciardi identified one finding, that AmTech did not meet the single audit report due date. AmTech must submit the R. J. Ricciardi audit report with the data collection form to the Federal Audit Clearinghouse (the Clearinghouse) no later than 9 months after the end of the fiscal year. R. J. Ricciardi identified the finding as a reportable condition. R. J. Ricciardi believed that because of the significance of the finding, and the fact that the finding was reported for several prior years without AmTech's taking appropriate corrective action, the audit report warrants a qualified opinion.

Recommendation. R. J. Ricciardi should revise its report on compliance and internal controls and its schedule of findings and questioned costs and provide the corrected documentation to AmTech to resubmit to the Clearinghouse.

Management's Response. R. J. Ricciardi concurred with the recommendation and revised its report on compliance and internal controls and its schedule of findings and questioned costs. However, R. J. Ricciardi stated that the OIG report was not written in the proper perspective and could lead readers to the wrong conclusions. The complete text of R.J. Ricciardi's response is in Appendix C.

Evaluation of Management's Response. R. J. Ricciardi's action to revise its report on compliance and internal controls and its schedule of findings and questioned costs is responsive to the recommendation. We reviewed R. J. Ricciardi's revised documents and determined that the corrections had been made. We stand by our conclusion that R. J. Ricciardi's report on compliance with requirements applicable to the major program was not written in accordance with GAGAS and the requirements identified in OMB Circular A-133.

Finding B. Incorrect Data Collection Form. The data collection form that R. J. Ricciardi prepared for its audit of AmTech was not accurate because the form did not properly identify direct awards. Direct awards are those that AmTech received directly from a Federal awarding agency (for example, NASA). OMB Circular A-133, §__.320(b), requires that the auditee submit a data collection form to the Clearinghouse. The form summarizes the significant information in the audit report for dissemination to the public through the Internet. The information in the form, in its entirety, should be accurate and complete.

Auditor's Corrective Action. R. J. Ricciardi revised the data collection form and provided it to AmTech to sign and resubmit to the Clearinghouse. Based on our review of the revised data collection form, we consider the corrective actions sufficient.

Management's Comments. R. J. Ricciardi stated that it initially completed the data collection form incorrectly in that all of AmTech's direct awards were not properly identified. R. J. Ricciardi also stated that it discovered this problem and made the appropriate revisions prior to the start of the NASA OIG quality control review. (See Appendix C for the complete text of R. J. Ricciardi's response.)

Evaluation of Management's Response. R. J. Ricciardi is correct in stating that it did revise the data collection form prior to the start of the NASA OIG quality control review. R. J. Ricciardi's revision of the data collection form, prior to our quality control review, was to correct major programs that were not properly identified. However, R. J. Ricciardi had to revise the data collection form again to properly identify direct awards, after we had raised the issue during our quality control review.

Other Matters of Interest. AmTech has consistently failed to submit the single audit report and the data collection form to the Clearinghouse by the required due dates. AmTech submitted the single audit report and the data collection form late for FYs 1998-2003. OMB Circular A-133, §__.320(a), requires the audit to be completed and the reporting package and the data collection form to be submitted no later than 9 months after the end of the audit period. R. J. Ricciardi has reported this issue as a repeat finding. We plan to bring this issue to the attention of the NASA Assistant Administrator for Procurement to ensure that, in the future, the audit report and data collection form are submitted when due.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Karl M. Allen, Project Manager, at (202) 358-2595 or Mr. Bret J. Skalsky, Auditor, at (281) 478-5733. See Appendix D for the report distribution. The evaluation team members are listed inside the back cover of this report.



Evelyn R. Klemstine
Assistant Inspector General for Auditing

cc:

Ms. Karen Robbins, President
American Technology Alliances

Appendix A. Quality Control Review Process

Scope and Methodology

We conducted a quality control review of the R. J. Ricciardi audit of AmTech for FY 2002 and the resulting reporting package that was submitted to the Clearinghouse. We performed our review using the 1999 edition of the “Uniform Quality Control Review Guide for A-133 Audits” (the Guide), issued by the President’s Council on Integrity & Efficiency. The Guide applies to any single audit that is subject to the requirements of OMB Circular A-133 and includes a checklist for performing the quality control reviews. We conducted our review January 18-21, 2005, at the San Rafael, California, office of R. J. Ricciardi and covered areas related primarily to the audit of AmTech’s R&D major program. As the oversight agency for audits of AmTech, we focused the review on the audit’s following qualitative aspects:

- auditors’ qualifications,
- independence,
- due professional care,
- quality control, and
- planning and supervision.

We also focused the review on working paper support for the following:

- major program determination,
- internal controls and compliance testing for the major program,
- schedule of expenditures of Federal awards,
- schedule of findings and questioned costs, and
- data collection form.

In conducting our review, we reviewed the audit documentation prepared by R. J. Ricciardi. We also discussed the audit with R. J. Ricciardi audit personnel. We emphasized the areas of major concern to the Federal Government, such as determining and auditing major program compliance and internal controls.

During the performance of our quality control review, we used the 1994 revision of GAGAS because the 2003 revision did not apply to AmTech’s FY 2002 single audit. The single audit was for AmTech’s fiscal year ended December 31, 2002. R. J. Ricciardi completed the single audit on December 9, 2003. The current revision of GAGAS, 2003 revision, is effective for audits of periods ending on or after January 1, 2004.

Single Audit Requirements

The Single Audit Act (the Act), Public Law 98-502, as amended, and OMB Circular A-133 are designed to improve the financial management of State and local governments and nonprofit organizations. The Act and OMB Circular A-133 establish uniform auditing and reporting requirements for all Federal award recipients who are required to obtain a single audit. OMB Circular A-133 establishes policies that guide

implementation of the Act and provides an administrative foundation for uniform requirements of non-Federal entities administering Federal awards. OMB Circular A-133 requires that Federal departments and agencies rely on and use the single audit work to the maximum extent practicable. Entities that expend \$300,000¹ or more of Federal awards in a fiscal year are subject to the Act and the audit requirements in OMB Circular A-133 and, therefore, must have an annual single or program-specific audit performed in accordance with GAGAS. To meet the requirements of the Act and OMB Circular A-133, the auditee (non-Federal entity) submits to the Clearinghouse a complete reporting package and a data collection form on each single audit. The reporting package includes the following:

- financial statements and related opinion;
- a schedule of expenditures of Federal awards and related opinion;
- a report on compliance and internal controls for financial reporting;
- a report on internal controls over compliance for major programs;
- a report on compliance with requirements for major programs and related opinion;
- a schedule of findings and questioned costs;
- a summary schedule of prior audit findings, when appropriate; and
- a corrective action plan, when appropriate.

The Supplement assists auditors in identifying the compliance requirements that the Federal Government expects to be considered as part of the single audit. For each compliance requirement, the Supplement describes the related audit objectives for the auditor to consider in each audit conducted in compliance with OMB Circular A-133 as well as suggested audit procedures. The Supplement also describes the objectives of internal controls and characteristics that, when present and operating effectively, help ensure compliance with requirements. The following 14 compliance requirements identified in the Supplement may be applicable to a major program that is audited:

1. Activities Allowed or Unallowed
2. Allowable Costs/Cost Principles
3. Cash Management
4. Davis-Bacon Act
5. Eligibility
6. Equipment and Real Property Management
7. Matching, Level of Effort, Earmarking
8. Period of Availability of Federal Funds
9. Procurement and Suspension and Debarment
10. Program Income
11. Real Property Acquisition and Relocation Assistance
12. Reporting
13. Subrecipient Monitoring
14. Special Tests and Provisions

¹On June 27, 2003, OMB Circular A-133 was revised to increase the threshold for a required audit to \$500,000 or more annually. The revision is effective for fiscal years ending after December 31, 2003.

Peer Review Report

To determine whether any issues existed of which we needed to be aware during our report and working paper review, we assessed the January 19, 2001, report on the most recent peer review of R. J. Ricciardi performed by Carl M. Arntzen, CPA. The Carl M. Arntzen, CPA, review determined that R. J. Ricciardi met the objectives of the quality control review standards established by the American Institute of Certified Public Accountants (AICPA) and that R. J. Ricciardi complied with the standards during the fiscal year ended May 31, 2000.

Prior Review of R. J. Ricciardi

In 2001, the NASA OIG performed a quality control review of R. J. Ricciardi and issued Report No. IG-02-005, "RJ Ricciardi, CPA, Audit of the Search for Extraterrestrial Intelligence Institute, Fiscal Year Ended September 30, 1999," December 6, 2001. Based on the results of that review, we determined that the R. J. Ricciardi audit work met the President's Council on Integrity and Efficiency's definition of a referable action under the Council's Position Statement 4, "IG [Inspector General] Quality Control Referral Procedures." NASA OIG sent a letter of referral to the AICPA Professional Ethics Division on January 28, 2002. On February 19, 2004, the AICPA Professional Ethics Division issued a letter of required corrective action to R. J. Ricciardi. R. J. Ricciardi agreed to all of the required corrective actions and was in the process of correcting the identified deficiencies.

Appendix B. Results of the R. J. Ricciardi Audit of American Technology Alliances for the Fiscal Year Ended December 31, 2002

Single Audit Report

On December 9, 2003, R. J. Ricciardi issued the audit report for AmTech for FY 2002. The auditors issued an unqualified opinion² on the financial statements, supplemental information, and the schedule of expenditures of Federal awards. The auditors issued a qualified opinion on compliance with requirements applicable to each major program and internal controls over compliance in accordance with OMB Circular A-133. However, we determined that the opinion must be reevaluated and the report revised (see finding A).

With respect to internal controls over financial reporting, the auditors did not identify any material weaknesses, any reportable conditions that were material weaknesses, or any instances of noncompliance material to financial statements. With respect to internal controls over major programs, the auditors did not identify any material weaknesses or any reportable conditions that were material weaknesses.

The auditors identified one major program, R&D, that they qualified as low risk. The single audit report contained one finding, which was that the single audit filing date was later than 9 months after AmTech's year end. AmTech personnel indicated that they did not meet the deadline because of reorganization efforts that resulted in an increased workload for the administrative staff. AmTech personnel stated that the audit would be completed on time in the future. This was the same finding, cause, and response identified in the FY 2001 single audit report.

Management Letter

On December 9, 2003, R. J. Ricciardi issued a management letter to AmTech's Board of Directors that contained four current year and three prior year observations involving the internal structure and other operational matters.

FY 2002 Observations

- Reimbursement on Credit Card Charges. AmTech did not have a direct link between the claim amounts and the expense items on the credit card statements.
- Personnel Files. AmTech did not maintain personnel files in an organized manner.

²An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity in conformity with generally accepted accounting principles.

- Policies and Procedures. AmTech should consider adopting the following three policies and procedures:
 1. a formal policy on fraud and abuse,
 2. a formal policy on conflicts of interest, and
 3. a disaster recovery plan.

- Board Meetings. AmTech did not hold any board meetings during FY 2002.

FY 2001 Observations

- Travel Claim Forms. Three travel expenditure claim forms were not signed, approved, or attached.

- Payroll Allocation. Payroll allocated to general and administrative costs did not agree with the payroll allocation worksheet.

- Furniture and Equipment Inventory. Deleted furniture and equipment on the summary worksheet of changes to the furniture and equipment inventory for December 31, 2001, did not agree with the deletions on the detail inventory worksheets.

For the FY 2002 observations, R. J. Ricciardi made recommendations to correct the observed conditions. For the FY 2001 observations, AmTech had implemented all recommendations except the recommendation related to the furniture and equipment inventory. AmTech did not explain why that recommendation was not implemented.

Appendix C. Management's Response

R. J. RICCIARDI

CERTIFIED PUBLIC ACCOUNTANT

1000 FOURTH STREET • SUITE 400 • SAN RAFAEL, CA 94901 • PHONE (415) 457-1215 • FAX (415) 457-6735 • www.rjrcpa.com

June 2, 2005

Mr. Bret Skalsky, CPA
National Aeronautics and Space Administration
Lyndon B. Johnson Space Center
Office of Inspector General
Financial & Institutional Management (FIM) Directorate
Mail Code W-JS
2101 NASA Parkway
Houston, Texas 77058

Dear Bret:

Our formal response to the findings is as follows:

In our opinion the NASA OIG review results were not written in the proper perspective and could lead the reader of this report to the wrong conclusions regarding the significance of the deficiencies.

R.J. Ricciardi's preparation of the single audit-reporting package in accordance with GAGAS and the requirements identified in OMB Circular A-133 (see Appendix B) was substantially in compliance and not materially misleading. Our report on compliance with requirements applicable to major programs used generic terminology when referring to a reportable condition. In addition the data collection form, which is part of the single audit-reporting package, was initially completed incorrectly in that all of AmTech's direct awards were not properly identified. However, we discovered this problem internally and made the appropriate revisions prior to the start date of the NASA OIG quality review.

R.J. Ricciardi has submitted a revised report using the proper terminology on compliance and internal controls, and its schedule of findings and questioned costs to the NASA OIG's office. Once we receive acceptance from the NASA OIG's office, we will provide the revised documents to AmTech to resubmit to the clearinghouse.

Please feel free to contact me with any comments or questions.

Sincerely,



Ralph J. Ricciardi, CPA

Appendix D. Report Distribution

Independent Audit Firm

Mr. Michael O'Connor
R. J. Ricciardi, Inc. Certified Public Accountant

Audited Organization

Ms. Karen Robbins, President
American Technology Alliances

Other

Mr. Leonard Hecht, Senior Technical Manager - Government
AICPA, Professional Ethics Division

NASA

Administrator
Deputy Administrator
Chief of Staff
Chief Financial Officer
Deputy Chief Financial Officer for Financial Management
Deputy Chief Financial Officer for Resources (Comptroller)
Director, Financial Management Division
General Counsel
Director for Procurement
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Deputy Associate Director, Energy and Science Division
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Senate Subcommittee on Commerce, Justice, and Science
Senate Committee on Commerce, Science, and Transportation
Senate Subcommittee on Science and Space
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**Congressional Committees and Subcommittees, Chairman and
Ranking Minority Member (cont'd)**

House Committee on Appropriations

House Subcommittee on Science, State, Justice, and Commerce

House Committee on Government Reform

House Subcommittee on Government Management, Finance, and Accountability

House Committee on Science

House Subcommittee on Space and Aeronautics

Evaluation Team Members

The Office of the Assistant Inspector General for Auditing, NASA Office of Inspector General, prepared this report. Personnel who contributed to the report are listed below.

Catherine M. Schneider, Director, Financial and Institutional Management

Karl M. Allen, Project Manager

Sandra L. Laccheo, National Single Audit Coordinator

Bret J. Skalsky, Auditor