

**DRAFT
QUALITY
CONTROL
REVIEW
REPORT**

**PRICEWATERHOUSECOOPERS LLP AND
DEFENSE CONTRACT AUDIT AGENCY AUDIT
OF THE JET PROPULSION LABORATORY
MANAGED BY THE CALIFORNIA INSTITUTE
OF TECHNOLOGY, FISCAL YEARS ENDED
SEPTEMBER 20, 1998, AND
SEPTEMBER 26, 1999**

March 21, 2001



National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

Additional Copies

To obtain additional copies of this report, contact the Assistant Inspector General for Auditing at (202) 358-1232, or visit www.hq.nasa.gov/office/oig/hq/issuedaudits.html.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Assistant Inspector General for Auditing. Ideas and requests can also be mailed to:

Assistant Inspector General for Auditing
Code W
NASA Headquarters
Washington, DC 20546-0001

NASA Hotline

To report fraud, waste, abuse, or mismanagement contact the NASA Hotline at (800) 424-9183, (800) 535-8134 (TDD), or at www.hq.nasa.gov/office/oig/hq/hotline.html#form; or write to the NASA Inspector General, P.O. Box 23089, L'Enfant Plaza Station, Washington, DC 20026. The identity of each writer and caller can be kept confidential, upon request, to the extent permitted by law.

Reader Survey

Please complete the reader survey at the end of this report or at www.hq.nasa.gov/office/oig/hq/audits.html.

Acronyms

AICPA	American Institute of Certified Public Accountants
DCAA	Defense Contract Audit Agency
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
JPL	Jet Propulsion Laboratory
NASA	National Aeronautics and Space Administration
OIG	Office of Inspector General
OMB	Office of Management and Budget
PwC	PricewaterhouseCoopers LLP
SOP	Statement of Position

Office of Inspector General

March 21, 2001

Mr. Robert W. Matter, Regional Director
Western Region
Defense Contract Audit Agency
16700 Valley View Avenue, Suite 300
La Mirada, CA 90638-5833

Re: Final Report on Quality Control Review of PricewaterhouseCoopers LLP and Defense Contract Audit Agency Audit of the Jet Propulsion Laboratory Managed by the California Institute of Technology for the Fiscal Years Ended September 20, 1998, and September 26, 1999
Assignment No. A0005200
Report No. IG-01-016

Dear Mr. Matter:

The subject final report is provided for your information and use. Please refer to the Executive Summary for the overall audit results. Our evaluation of your response is incorporated into the body of the report. The recommendations will remain open for reporting purposes until corrective action is completed. Please notify us when action has been completed on the recommendations.

If you have questions concerning the report, please contact Mr. Patrick A. Iler, Director, Audit Quality, at (216) 433-5408, or Ms. Vera J. Garrant, Auditor-in-Charge, at (202) 358-2596. We appreciate the courtesies extended to the audit staff. The final report distribution is in Appendix F.

Sincerely,

Russell A. Rau
Assistant Inspector General for Auditing

Enclosure

cc:

A/Administrator

AA/Chief of Staff

AI/Associate Deputy Administrator

B/Acting Chief Financial Officer

B/Comptroller

BF/Director, Financial Management Division

G/General Counsel

H/Associate Administrator for Procurement

JM/Director, Management Assessment Division

Ms. Barbara Armstrong, Branch Manager, San Gabriel Valley Branch Office, Defense
Contract Audit Agency

bcc:

AIGA Chron

W/N. Cipolla

W/V. Garrant

W/P. Iler

Office of Inspector General

March 21, 2001

Mr. Ron Bartlett, Partner
PricewaterhouseCoopers LLP
400 Hope Street
Los Angeles, CA 90071-2889

Re: Final Report on Quality Control Review of PricewaterhouseCoopers LLP and Defense Contract Audit Agency Audit of the Jet Propulsion Laboratory Managed by the California Institute of Technology for the Fiscal Years Ended September 20, 1998, and September 26, 1999
Assignment No. A0005200
Report No. IG-01-016

Dear Mr. Bartlett:

The subject final report is provided for your use. Please refer to the Results of Review section for the overall review results.

If you have questions concerning the report, please contact Mr. Patrick A. Iler, Director, Audit Quality, at (216) 433-5408, or Ms. Vera J. Garrant, Auditor-in-Charge, at (202) 358-2596. We appreciate the courtesies extended to the audit staff. The final report distribution is in Appendix F.

Sincerely,

Russell A. Rau
Assistant Inspector General for Auditing

Enclosure

cc:

A/Administrator

AA/Chief of Staff

AI/Associate Deputy Administrator

B/Acting Chief Financial Officer

B/Comptroller

BF/Director, Financial Management Division

G/General Counsel

H/Associate Administrator for Procurement

JM/Director, Management Assessment Division

bcc:

AIGA Chron

W/N. Cipolla

W/V. Garrant

W/P. Iler

Contents

Executive Summary, i

Introduction, 1

Finding and Recommendations, 2

Working Paper Documentation, 2

Appendix A – Single Audit Requirements, 7

Appendix B – Objectives and Scope, 10

Appendix C – Quality Control Review Methodology, 12

Appendix D – Other Matters of Interest, 14

Appendix E – Management’s Response, 18

Appendix F – Report Distribution, 20

NASA Office of Inspector General

IG-01-016
A0005200

March 21, 2001

PricewaterhouseCoopers LLP and Defense Contract Audit Agency Audit of the Jet Propulsion Laboratory Managed by the California Institute of Technology for the Fiscal Years Ended September 20, 1998, and September 26, 1999

Executive Summary

Background. The Jet Propulsion Laboratory (JPL) is a National Aeronautics and Space Administration (NASA) federally funded research and development center in Pasadena, California. JPL is part of the California Institute of Technology (Caltech), a private, not-for-profit educational institution also located in Pasadena. JPL operates mainly under a cost-reimbursement, research and development contract (NAS7-1260) from NASA in the science and technology for unmanned space exploration.

As the cognizant audit agency for JPL, the NASA Office of Inspector General (OIG) performed a quality control review of the PricewaterhouseCoopers LLP (PwC) and Defense Contract Audit Agency (DCAA) audit of JPL for the fiscal years (FY's) ended September 20, 1998, and September 26, 1999.¹ The Single Audit Act and the Single Audit Act Amendments² require the audits. JPL reported total Federal expenditures for FY's 1998 and 1999 of \$1.27 billion and \$1.32 billion, respectively. The Schedule of Expenditures of Federal Awards³ identifies NASA as the funding agency for all the expenditures. However, the expenditures include work performed for other Federal agencies under task orders on the NASA contract. Therefore, other Federal agency expenditures may be represented in the Schedule, but they are included in the overall NASA award expenditures.

Appendix A provides details on the single audit requirements.

¹The offices of PwC, Los Angeles, California, and DCAA, Pasadena, California, performed the single audit for the JPL fiscal years ended September 20, 1998, and September 26, 1999.

²Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," implements the requirements of the Single Audit Act and the Single Audit Act Amendments. Appendix A contains details on the requirements of the Circular.

³ The Schedule of Expenditures of Federal Awards shows the amount of annual Federal award expenditures by Federal agency for each program, grant, or contract.

Objectives. The objective of our report review was to determine whether the reports JPL submitted to the Federal Audit Clearinghouse⁴ for FY's 1998 and 1999 met the applicable reporting standards and Office of Management and Budget (OMB) Circular A-133⁵ reporting requirements.

The objectives of our quality control reviews were to determine whether PwC and DCAA conducted the audits in accordance with applicable standards and whether the audits met the auditing and reporting requirements of OMB Circular A-133. Appendixes B and C contain details on the objectives, scope, and methodology.

Results of 1998 Review. On December 1, 1999, PwC issued its audit report on JPL for the fiscal year ended September 30, 1998. The PwC auditors are responsible for auditing the JPL financial statements and the following compliance requirements for the research and development major program:⁶ Davis-Bacon Act, Eligibility, Equipment and Real Property Management, Matching, Level of Effort, Earmarking, Procurement and Suspension and Debarment, Program Income, Real Property Acquisition/Relocation Assistance, Reporting, Subrecipient Monitoring, and Special Tests and Provisions.

On December 7, 1999, DCAA issued its report on internal control and compliance for JPL for FY 1998. The DCAA auditors are responsible for auditing the following compliance requirements for the research and development major program: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Period of Availability of Federal Funds, and Special Tests and Provisions.

- **Reported A-133 Results.** The PwC auditors (1) identified internal control findings; (2) questioned no costs; and (3) issued an unqualified opinion⁷ on the financial statements, Schedule of Expenditures of Federal Awards, and major program compliance. The auditors also found no instances of noncompliance in the financial statement audit that are required to be reported under generally accepted government

⁴The Single Audit Act Amendments of 1996, §7504(c), require the Office of Management and Budget to establish the Federal Audit Clearinghouse to receive the Circular A-133 audit reports.

⁵ See footnote number 2.

⁶ A major program is a Federal program, or cluster of Federal programs, that the auditors identified for audit using the risk criteria in OMB Circular A-133 section ____ .520.

⁷An unqualified opinion means that the financial statements are presented fairly in all material respects, expenditures of Federal funds are presented fairly in relation to the financial statements taken as a whole, and the auditee has complied with all applicable laws, regulations, and contract provisions that could have a direct and material effect on each major program.

auditing standards (GAGAS).⁸ Finally, the auditors noted no matters involving internal controls relating to the financial statements or the major program that are considered to be material weaknesses.⁹

The DCAA auditors (1) identified internal control and compliance findings, (2) questioned costs, and (3) issued an unqualified opinion on major program compliance. The auditors also noted no matters involving internal controls related to the major program that are considered to be material weaknesses.

- **Report Quality Review Results.** JPL’s audit report meets the applicable reporting guidance and regulatory requirements in OMB Circular A-133.
- **Audit Quality Review Results.** The PwC and DCAA audit work meet the applicable auditing guidance and requirements in (1) OMB Circular A-133 and its related Compliance Supplement, (2) GAGAS, and (3) generally accepted auditing standards.

Results of 1999 Review.¹⁰ On January 14, 2000, PwC issued its audit report on JPL for the fiscal year ended September 26, 1999. DCAA issued its report on internal control and compliance for JPL on June 29, 2000. The DCAA significantly improved its audit techniques for the FY 1999 audit over those it used for the 1998 audit. DCAA performed the 1998 audit using techniques for a traditional DCAA incurred cost audit,¹¹ which focuses on internal controls at the organization level while determining compliance testing at the expenditure category level. The 1999 audit concentrated on internal controls and compliance testing at the compliance requirement level as required by OMB Circular A-133.

- **Reported A-133 Results.** The PwC auditors (1) identified internal control findings; (2) questioned no costs; and (3) issued an unqualified opinion on the financial statements, Schedule of Expenditures of Federal Awards, and major program compliance. The auditors also found no instances of noncompliance in the financial statement audit that are required to be reported under GAGAS. Finally, the auditors noted no matters involving internal controls relating to the financial statements or the major program that are considered to be material weaknesses.

⁸These standards are broad statements of the auditors’ responsibilities, promulgated by the Comptroller General of the United States.

⁹The American Institute of Certified Public Accountants (AICPA) Statement of Position 98-3, Appendix D, defines a material weakness as:

... the condition in which the design or operation of one or more of the internal control components [control environment, risk assessment, control activities, information and communication, and monitoring] does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

¹⁰ See the “Results of 1998 Review” section on the previous page for the PwC and DCAA audit scope.

¹¹ An incurred cost audit involves examining contractors’ cost representations to express an opinion as to whether the incurred costs are reasonable; applicable to the contract; determined under GAAS and cost accounting standards applicable to the circumstances; and are not prohibited by the contract, by statute or regulation, or by previous agreement with the contracting officer.

The DCAA auditors (1) identified internal control and compliance findings, (2) questioned costs, and (3) issued a qualified opinion¹² on major program compliance. The auditors qualified their opinion on major program compliance based on JPL's incorrect allocation of labor costs, possible reductions to the NASA award related to JPL sharing in environmental cleanup costs, and a reduction in the amount of indirect costs transferred from Caltech.¹³ The auditors also noted no matters involving internal controls relating to the major program that are considered to be material weaknesses.

- **Report Quality Review Results.** JPL's audit report meets the applicable auditing and reporting guidance and regulatory requirements in OMB Circular A-133.
- **Audit Quality Review Results.** The PwC audit work meets the applicable auditing guidance and requirements in (1) OMB Circular A-133 and its related Compliance Supplement, (2) generally accepted government auditing standards, and (3) generally accepted auditing standards.

The DCAA audit work generally meets the applicable auditing guidance and requirements in (1) OMB Circular A-133 and its related Compliance Supplement, (2) GAGAS, and (3) generally accepted auditing standards. DCAA did not meet the GAGAS for working paper documentation of the cash management and period of availability of Federal funds compliance requirements. Specifically, the auditors did not adequately document their working papers for their understanding of internal controls for the period of availability of Federal funds and the criteria they used to test internal controls and compliance for cash management. Also, we could not determine the adequacy of internal control testing for the period of availability of Federal funds compliance requirement because of the inadequate internal control working paper documentation.

Recommendations. We recommend that for the JPL fiscal year ended September 26, 1999, and for future audits, DCAA:

- Document working papers to adequately describe the auditors' understanding of internal controls and the planned and completed internal control testing for the period of availability of Federal funds compliance requirement.
- Document the internal controls the auditors plan to rely on and test and document the criteria to test internal controls and compliance for the cash management compliance requirement.

¹²A qualified opinion means that, except for the effects of the matters related to the qualification, the auditee complied with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each major program.

¹³Caltech manages JPL.

Management's Response. Concur. DCAA agreed to improve its 1999 and future internal control working paper documentation for the period of availability of Federal funds compliance requirement to (1) identify the five components of internal control, (2) summarize the DCAA auditors' understanding of the system of internal controls, and (3) summarize the attributes and criteria tested. DCAA will also document its 1999 and future working papers to clearly identify the specific cash management internal controls relied upon and the criteria used to test those controls. The complete text of the response is in Appendix E.

Evaluation of Management's Response. We consider management's comments responsive. The recommendations are resolved but will remain undispositioned and open until agreed-to corrective actions are completed.

Other Matters of Interest. On September 20, 1999, we issued Report No. IG-99-045, "Final Report on Quality Control Review of PricewaterhouseCoopers LLP and Defense Contract Audit Agency Audit of the Jet Propulsion Laboratory at the California Institute of Technology for the Fiscal Year Ended September 21, 1997." During the 1997 initial report and quality control reviews, we identified issues that we brought to NASA management's attention relating to the audit scope, financial statement preparation, and unresolved costs. These issues did not affect the results of our review. The auditors resolved all those issues by incorporating our concerns into their 1999 audit. The current status of these issues is discussed in detail in Appendix D.

On June 29, 2000, the DCAA JPL suboffice issued Audit Report No. 4901-1999J10100001, "Report on Jet Propulsion Laboratory's (JPL) Compliance Over Its Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, Fiscal Year 1999." Appendix 2 to that report identifies other reportable matters that should be brought to NASA management's attention. We also discuss these issues in detail in our Appendix D.

Introduction

The Single Audit Act Amendments of 1996 (Public Law 104-156) and the June 24, 1997, revision to OMB Circular A-133 require that an auditee obtain an annual audit of its FY Federal expenditures. The audit must be performed by independent auditors and must be in accordance with the Single Audit Act Amendments of 1996, OMB Circular A-133 and its related Compliance Supplement, and the GAGAS that are applicable to financial audits.

A complete reporting submission in accordance with OMB Circular A-133 includes the following: (1) financial statements and related opinion, (2) Schedule of Expenditures of Federal Awards and related opinion, (3) report on internal controls and compliance review on the financial statements, (4) report on internal controls review and compliance opinion on major programs, and a (5) Schedule of Findings and Questioned Costs.¹⁴

Appendix A contains additional details on the Single Audit requirements.

¹⁴Appendix C describes the information in the Schedule of Findings and Questioned Costs.

Finding and Recommendations

Working Paper Documentation

For the FY 1999 audit, the DCAA auditors did not adequately document their working papers for their understanding of the five components of internal controls,¹⁵ the planned test of internal controls, and the completed internal control testing for the period of availability of Federal funds compliance requirement.¹⁶ In addition, the DCAA auditors did not document the criteria they used to test internal control and compliance for the cash management compliance requirement. These conditions occurred because the auditors limited their working paper documentation to acknowledging whether the internal control characteristics described in the OMB Circular A-133 Compliance Supplement existed. The auditors did not determine whether the stated characteristics adequately described the internal controls for the cash management and period of availability of Federal funds compliance requirements. The auditors relied on their inadequate internal control documentation and the compliance audit program to represent the criteria tested. As a result, independent reviewers cannot understand the auditors' (1) determination to test specific internal controls for the period of availability of Federal funds and (2) conclusions and judgments regarding the entity's internal controls or compliance related to cash management.

Working Paper Documentation Requirement

The American Institute of Certified Public Accountants (AICPA) Codification of Statements on Auditing Standards §339.05, "Content of Working Papers," and GAGAS, sections 4.34 through 4.37, "Working Papers," require auditors to retain a record of the audit in the form of working papers to demonstrate that they have met the applicable standards of field work. GAGAS further state that the form and content of the working papers should allow an experienced auditor to understand the auditors' significant conclusions and judgments. In general, the working papers should document the objectives, scope, and methodology, including the sampling criteria the auditor used. Specifically, working papers should include enough information about the work performed and the documents (transactions and records) examined so that an experienced auditor would be able to examine the same documents and understand the auditor's judgments and conclusions.

Internal Control

Requirements to Document, Plan, and Test Internal Controls. In general, OMB Circular A-133 §__.500(c)(1) requires the auditor to perform procedures to obtain an understanding of internal controls over Federal programs that is sufficient to plan the audit for major programs; plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program; and unless internal control is likely to be ineffective, perform testing of internal control as planned.

¹⁵ The five components of internal controls are the control environment, risk assessment, control activities, information and communication, and monitoring.

¹⁶ The period of availability of Federal funds and cash management requirements are 2 of the 14 compliance requirements that are subject to audit in an OMB Circular A-133 audit. Appendix A lists all the compliance requirements.

The AICPA Statement of Position (SOP) 98-3, “Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards,” sections 8.7, 8.10, and 8.16, describe the auditors’ responsibilities for planning the review of internal controls for major programs. The auditors must obtain a sufficient understanding of internal control over Federal programs by performing procedures to understand the design of the five internal control components related to the A-133 compliance requirements for each major program. The auditors must also determine whether the internal controls are operating. The auditors plan the internal control testing to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program. SOP 98-3 section 8.16 explains:

... Federal agencies want to know if conditions indicate that auditees have not implemented adequate internal control over compliance for federal programs to ensure compliance with applicable laws and regulations.

Internal Control Documentation Guidelines. OMB Circular A-133 Compliance Supplement, Part 6, “Internal Control,” describes characteristics of internal control for each of the five components of internal control that should reasonably assure compliance with Federal laws, regulations, and program compliance requirements. Part 6 of the Supplement also provides brief descriptions of the components of internal control and examples of characteristics common to the 14 types of compliance requirements.

Part 6 is intended to assist non-Federal entities and their auditors in complying with the requirements by describing, for each of the 14 compliance requirements, the objectives of internal control and certain characteristics of internal control that, when present and operating effectively, may ensure compliance with program requirements. However, the characteristics reflected in Part 6 may not reflect how an entity considers and implements internal control. Also, Part 6 does not include a checklist of required internal control characteristics. Non-Federal entities could have adequate internal control even though some or all of the characteristics in Part 6 are not present. Further, non-Federal entities could have other appropriate internal controls that are operating effectively but are not included in Part 6. Non-Federal entities and their auditors need to exercise judgment in determining the most appropriate and cost-effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with Federal program requirements.

DCAA Working Paper Documentation

DCAA did not meet GAGAS and AICPA standards for working paper documentation related to the period of availability of Federal funds and cash management requirements for the 1999 audit.

Period of Availability of Federal Funds. For the period of availability of Federal funds compliance requirement, the auditors must determine whether Federal funds were used in the time period specified in the award. For the FY 1999 audit, the auditors did not adequately document their understanding and testing of internal controls related to the period of availability of Federal funds requirement. The OMB Circular A-133 Compliance Supplement identifies internal control objectives and the characteristics for the five components of internal control for each compliance requirement. The objective of the internal control documentation for the period

of availability of Federal funds is “[t]o provide reasonable assurance that Federal funds are used only during the authorized period of availability.” The DCAA auditors limited their understanding of internal controls to the characteristics identified in the Compliance Supplement and documented their understanding based on those characteristics rather than documenting applicable internal controls actually in use. The auditors used the Compliance Supplement as a checklist to document only whether the internal control components and characteristics briefly described in the Supplement existed at JPL and whether JPL complied with the characteristics. Consequently, an independent reviewer would not be able to trace the controls identified in the testing section of the working papers to the working papers that support the auditors’ understanding of internal controls.

Cash Management. For the cash management compliance requirement, the auditors must determine whether (1) the entity paid for the program costs before requesting reimbursement from the Federal Government when entities are funded on a reimbursement basis or whether (2) the entity minimized the time elapsed between the transfer of funds from the U.S. Treasury and disbursement if the entity received an advance payment. The DCAA auditors did not document their working papers for the criteria used to test internal controls for the cash management requirement. The auditors documented their working papers for the five components of internal control using the suggested guidance in OMB Circular A-133 Compliance Supplement. However, the auditors did not identify the specific cash management internal controls they intended to rely on and test. The documentation of compliance testing did not adequately explain the purpose of the working paper, the controls that were tested, or work that was performed. The working papers consisted of columns with numbers, dates, and references to other working papers but had no auditor explanations of the working paper or the conclusions reached. As a result, an independent reviewer cannot understand the intent of the working paper regarding compliance testing for the cash management requirement.

Auditing the Compliance Requirements

Planning Compliance Tests. OMB Circular A-133 §___.505(c) requires the auditors to express an opinion on whether the audited organization complied with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect on each major program. AICPA SOP 98-3, sections 6.31, 6.33, and 6.35, state that during the planning process, the auditors should develop an overall audit strategy to determine the nature, timing, and extent of work necessary to accomplish the audit objectives. The auditors should plan the audit using the understanding of the internal controls to (1) identify types of potential noncompliance, (2) consider factors affecting the risk of material noncompliance, and (3) design compliance tests.

Performing Compliance Tests. OMB Circular A-133 §___.500(d)(1) and (4) and AICPA SOP 98-3, section 6.22, require the auditors to determine whether the Federal award recipient complied with the laws, regulations, and contract and grant provisions that materially affect the major program. Compliance testing includes transactions and other auditing procedures that provide the auditors with sufficient evidence to support an opinion on compliance. Part 3 of the OMB A-133 Compliance Supplement provides the auditors guidance on reviewing compliance with each of the 14 compliance requirements. This information is intended to assist the auditors

in planning and performing tests to determine whether the auditee complied with the Federal program requirements. AICPA SOP 98-3, sections 6.39, 6.36, and 6.37, state that the purpose of the compliance testing is for the auditors to apply procedures to provide reasonable assurance of detecting material noncompliance to determine whether the auditee materially complied with the requirements.

DCAA Working Paper Documentation. DCAA did not meet GAGAS and AICPA standards for working paper documentation related to testing compliance for the cash management requirement. The DCAA audit program included procedural steps to test compliance with laws, regulations, and the provisions of the award agreement for the cash management requirement. The audit program references working papers that support the internal control and compliance testing. However, neither the audit program nor the supporting working papers identify the criteria the auditors used to determine whether JPL complied with the cash management requirements.

Effect on the Audit

Sufficient documentation of the auditors' understanding of internal controls and the attributes tested for compliance permits independent reviewers to determine whether the audit was adequately planned and executed to meet the OMB Circular A-133 audit objectives. Federal agencies rely on the reported opinion on compliance for each major program as appropriate, based on an audit that is conducted in accordance with the requirements of OMB Circular A-133. Without sufficient working paper documentation, (1) there is no evidence that the audit work was performed in accordance with the requirements of OMB Circular A-133, its related Compliance Supplement, GAGAS, and the AICPA auditing standards and (2) independent reviewers cannot understand the auditors' conclusions and judgments regarding the work performed.

The auditors identified the period of availability of Federal funds and cash management compliance requirements as having a direct and material effect on the research and development major program. Without adequate working paper documentation on internal controls for these two compliance requirements, an independent reviewer cannot understand the auditors' conclusions and judgments for testing specific internal controls or the effectiveness of JPL's internal controls. In addition, without adequate working paper documentation on compliance testing, an independent reviewer cannot understand whether JPL complied with the laws, regulations, and provisions of the award related to the cash management requirement.

Recommendations, Management's Response, and Evaluation of Response

1. The DCAA should document its working papers for the period of availability of Federal funds compliance requirement for the FY 1999 and future audits to adequately describe:

- **The five components of internal controls to enable an independent reviewer to understand the internal controls the auditors relied on and tested.**
- **The planned and completed tests of internal control.**

2. The DCAA should document the working papers for the cash management compliance requirement for the FY 1999 and future audits to adequately describe:

- **The internal controls the auditors planned to rely on and test.**
- **The criteria used to test internal controls and compliance.**

Management's Response. Concur. DCAA agreed to improve its 1999 and future internal control working paper documentation for the period of availability of Federal funds compliance requirement. The auditors will identify the five components of internal control and how the components relate to the compliance requirements in the DCAA audit scope. The auditors will also summarize their understanding of the system of internal controls and its conclusions regarding those controls. Finally, the auditors will summarize the attributes and criteria tested to allow reviewers to determine compliance with the audit program steps and to understand the overall audit conclusions.

DCAA is also documenting its 1999 and future working papers to clearly identify the specific cash management internal controls relied upon and the criteria used to test those controls. In addition, DCAA is improving the testing section of the working papers to explain the purpose, testing criteria used, and the work performed.

Evaluation of Response. Management's planned actions are responsive to the recommendations. The recommendations are resolved but will remain undispositioned and open until agreed-to corrective actions are completed.

Appendix A. Single Audit Requirements

The Inspector General Act of 1978, as amended (Public Law 95-452), requires an agency's Inspector General 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 of 1984 (Public Law 98-502) was intended to improve the financial management of state and local governments, while OMB Circular A-133 was intended to improve financial management for nonprofit organizations. The Act and the Circular established uniform requirements for audits of Federal financial assistance, promoted efficient and effective use of audit resources, and helped to ensure that Federal departments and agencies rely on and use the audit work to the maximum extent practicable.

The Single Audit Act Amendments of 1996 (Public Law 104-156) incorporate the previously excluded nonprofit organizations. Including the nonprofit organizations strengthens the usefulness of the audits by establishing one uniform set of auditing and reporting requirements for all Federal award recipients that are required to obtain a single audit. Major changes to the Act include: (1) increasing the audit threshold from \$25,000 to \$300,000 with respect to Federal financial assistance programs before an audit is required; (2) selecting Federal programs for audit based on a risk assessment rather than the amount of funds involved; and (3) improving the contents and timeliness of single audits.

The revised OMB Circular A-133 was issued on June 24, 1997, pursuant to the Single Audit Act Amendments of 1996. In general, the Circular requires that an auditee who expends \$300,000 or more annually in Federal awards, obtain an audit and issue a report of its Federal award expenditures in accordance with the generally accepted government auditing standards applicable to financial audits. The audit must be performed by auditors who meet the independent standards in generally accepted government auditing standards and in accordance with the auditing and reporting requirements of the Circular and its related Compliance Supplement. The audit report submission contains:

- financial statements and related opinion,
- Schedule of Expenditures of Federal Awards and related opinion,
- report on the internal controls and compliance review of the financial statements,
- report on internal controls reviewed and compliance opinion on major programs, and
- Schedule of Findings and Questioned Costs.

The auditee must also submit a Data Collection Form to the Department of Commerce Clearinghouse. The form summarizes the significant information in the audit report for dissemination to the public through the Internet. Responsible officials from the audited entity and the audit organization sign the form certifying to the information presented.

Appendix A

The Compliance Supplement is based on the requirements of the Single Audit Act Amendments of 1996 and the final June 30, 1997, revision of OMB Circular A-133, which provide for the issuance of a compliance supplement to assist auditors in performing the required audits. The National State Auditors Association study states:

The Compliance Supplement provides an invaluable tool to both Federal agencies and auditors in setting forth the important provisions of Federal assistance programs. This tool allows Federal agencies to effectively communicate items which they believe are important to the successful management of the program and legislative intent

Compliance with the Supplement satisfies the requirements of OMB Circular A-133. The Supplement identifies Federal programs by Federal agency. The Supplement identifies existing and important compliance requirements, which the Federal Government expects the auditors to consider as part of an audit required by the 1996 Amendments. Using the Supplement eliminates the need for the auditors to research the laws and regulations for each major program audit to determine the compliance requirements that are important to the Federal Government and that could have a direct and material effect on the major program. The Supplement is a more efficient and cost-effective approach to performing this research. It "... provides a source of information for auditors to understand the Federal program's objectives, procedures, and compliance requirements relevant to the audit as well as audit objectives and suggested audit procedures for determining compliance with the requirements."

For single audits, the Supplement replaces agency audit guides and other audit requirement documents for individual Federal programs and specifically states which of the following 14 compliance requirements are applicable to a major program that may be 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/Relocation Assistance
12. Reporting
13. Subrecipient Monitoring
14. Special Tests and Provisions

The Compliance Supplement assists the auditors in determining the audit scope for the Circular's internal control requirements. For each compliance requirement, the Supplement describes the objectives of internal control and certain characteristics that when present and operating effectively, may ensure compliance with program requirements. The Supplement gives examples of the common characteristics for the 5 components of internal controls (control environment, risk assessment, control activities, information and communication, and monitoring) for the 14 compliance requirements.

Appendix B. Objectives and Scope

Audit Report Review

The objective of an audit report review is to determine whether the report submitted by the auditee meets the applicable reporting standards and the OMB Circular A-133 reporting requirements. As the cognizant Federal audit agency for JPL, we performed a review of the audit report on JPL for the fiscal years (FY's) ended September 20, 1998 and September 26, 1999. We reviewed the reports for compliance with the requirements of the Single Audit Act, Single Audit Act Amendments of 1996, and OMB Circular A-133. We focused our review on the reports' qualitative aspects of: (1) due professional care; (2) auditor's qualifications and independence; (3) financial statements, compliance, and internal control reporting; (4) Schedule of Expenditures of Federal Awards; and (5) Schedule of Findings and Questioned Costs.

Quality Control Review

The objectives of a quality control review are to ensure that an audit was conducted in accordance with generally accepted government auditing standards¹⁷ and generally accepted auditing standards and whether the audit meets the auditing and reporting requirements of OMB Circular A-133. As the cognizant audit agency for JPL, we conducted quality control reviews of the PwC and DCAA audit working papers. We focused the review on the qualitative aspects of the audit, which include:

- auditor's qualifications,
- independence,
- due professional care,
- quality control,
- planning and supervision,
- Federal receivables and payables,
- major program determination, and
- internal controls and compliance testing for major programs

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

- Schedule of Expenditures of Federal Awards,
- Schedule of Findings and Questioned Costs, and
- Data Collection Form.

We organized our review by the general and field work audit standards and the required elements of a single audit. We emphasized the areas of major concern to the Federal Government such as determining and auditing major program compliance and internal controls. We conducted the review January 17 through 25, 2001, at the Los Angeles, California, office of PwC and the

¹⁷These standards are broad statements of the auditors' responsibilities, promulgated by the Comptroller General of the United States.

Pasadena, California, suboffice of DCAA. The NASA Office of Inspector General has previously performed quality control reviews of the PwC and DCAA working papers supporting the JPL audit.

Peer Review Report

Deloitte & Touche LLP recently completed its peer review of PricewaterhouseCoopers LLP for the period ended March 31, 2000. The results of the review are not yet available. Therefore, we reviewed the last peer review results issued. In 1998 Coopers & Lybrand L.L.P. and Price Waterhouse LLP merged to form PwC. Before the merger, each firm had a peer review performed within the 3-year period required by generally accepted government auditing standards. The NASA and Department of Defense Offices of Inspector General reviewed the Coopers & Lybrand L.L.P. and Price Waterhouse LLP peer review reports for PwC. We reviewed the October 28, 1997, Ernst & Young LLP peer review report on the Coopers & Lybrand L.L.P. fiscal year ended March 31, 1997. We also reviewed the November 6, 1996, Deloitte & Touche LLP peer review report on the Price Waterhouse LLP fiscal year ended June 30, 1996. Ernst & Young LLP and Deloitte & Touche LLP determined that Coopers & Lybrand L.L.P. and Price Waterhouse LLP, respectively, met the objectives of the quality control review standards established by the American Institute of Certified Public Accountants and complied with the standards during the fiscal year.

We reviewed the September 27, 2000, external quality control report of DCAA, performed by the Office of Inspector General, Department of Defense (OIG, DoD). The OIG, DoD determined that there were no material, uncorrected noncompliances with applicable auditing standards or audit policies and procedures for DCAA FY's 1997 through 1999.

Appendix C. Quality Control Review Methodology

Report of Independent Accountants

The auditors are required to determine whether the financial statements are presented fairly in all material respects in conformity with generally accepted auditing principles and are free of material misstatement. The auditors are also required to subject the Schedule of Expenditures of Federal Awards to the 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. We reviewed the PricewaterhouseCoopers LLP audit programs and the testing of evidence to determine whether testing was sufficient based on an assessment of control risk to warrant the conclusion reached. We also reviewed the working papers to determine whether they supported the conclusion.

Schedule of Expenditures of Federal Award

The recipient is responsible for creating the Schedule of Federal Awards. The auditors are required to audit the information in the Schedule to ensure it is fairly presented in all material respects in relation to the financial statements taken as a whole. We reviewed the PricewaterhouseCoopers LLP audit programs for the appropriate procedures and traced some of the amounts to the Subsidiary Ledger and/or Trial Balance.

Report of Independent Accountants on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The auditors are required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect in determining financial statement amounts. The auditors are also required to obtain an understanding of internal controls that is sufficient to plan the audit and to assess control risk. We reviewed the PricewaterhouseCoopers LLP audit programs for the appropriate procedures, the working paper documentation, and the compliance and substantive testing performed.

Report of Independent Accountants on Compliance with Requirements Applicable to Jet Propulsion Laboratory (A Federally Funded Research and Development Center Managed by California Institute of Technology) and on Internal Control Over Compliance in Accordance with Selected Components of OMB Circular A-133

Report on Jet Propulsion Laboratory's (JPL) Compliance with Requirements Applicable to Its Major Program and on Internal Controls Over Compliance in Accordance with OMB Circular A-133, Fiscal Year 1998

Report on Jet Propulsion Laboratory's (JPL) Compliance with Requirements Applicable to Its Major Program and on Internal Controls Over Compliance in Accordance with OMB Circular A-133, Fiscal Year 1999

The auditors are required to determine whether the recipient has complied with laws, regulations, and the provisions of contracts and grant agreements that may have a direct and material effect on each of its major Federal programs. The auditors are required to use the procedures in the OMB Circular A-133 Compliance Supplement to determine the compliance requirements for each major program. We reviewed the audit program for the appropriate procedures and compared the audit program steps to those in the Compliance Supplement to determine whether the applicable steps had been performed. We also reviewed the working paper documentation and its support and the compliance tests performed.

The auditors must perform procedures to obtain an understanding of internal controls over Federal programs that is sufficient to plan an audit to support a low-assessed level of control risk for major programs. The auditors must plan and perform internal controls testing over major programs to support a low level of control risk for the assertions relevant to the compliance requirements for each major program. We reviewed the audit programs for the appropriate procedures, the working paper documentation, and the test of controls performed.

Summary of Findings and Questioned Cost Resulting from Audit by PricewaterhouseCoopers LLP

Schedule of Findings and Questioned Costs

The auditors are required to prepare a Schedule of Findings and Questioned Costs that summarizes the audit results. This schedule includes information about and related to the audit that is not required to be identified in other parts of the audit report including: (1) major programs audited, (2) details on findings and questioned costs (including reportable conditions and material weaknesses), (3) dollar threshold to identify major programs, and (4) whether the recipient is considered to be low risk. We reviewed the audit programs for the appropriate procedures and the working paper documentation supporting the information in the schedule.

Appendix D. Other Matters of Interest

During the 1997 initial report and quality control reviews, we identified issues relating to the audit scope, financial statement preparation, and unresolved costs that we brought to NASA management's attention. These issues had no effect on the results of our review. In addition, the Defense Contract Audit Agency (DCAA) identified other reportable matters in its 1999 audit, which do not affect its audit results. The auditors resolved all the issues we identified by incorporating them into their 1999 audit.

Audit Scope

On January 14, 1999, the California Institute of Technology (Caltech) elected to report the FY 1997 Jet Propulsion Laboratory (JPL) operations as a separate reporting entity in accordance with OMB Circular A-133 § ___.200(e). On June 11, 1999, Caltech requested permission from the NASA Management Office at JPL to perform a program-specific audit for JPL. Although NASA denied the request on June 30, 1999, the PricewaterhouseCoopers (PwC) single audit report states that the JPL audit was performed as a program-specific audit of the \$1.2 billion NASA contract NAS7-1260. Subsequently, PwC issued a letter stating that the report represents an organizationwide audit of the JPL operations. Our quality control review of the audit working papers identified about \$300,000 in other Federal award expenditures that were not part of the audit scope. However, the expenditures do not materially affect the audit. Therefore, the FY 1997 report materially represents an organizationwide audit of the JPL operations.

PwC performed audits and issued its 1997 and 1998 audit reports on JPL within a 6-month timeframe on June 30, 1999, for the fiscal year ended September 21, 1997, and on December 1, 1999, for the fiscal year ended September 20, 1998. Because of the timing, the auditors performed the 1998 audit using the approach they used for the 1997 audit. However, PwC performed an organizationwide audit for 1999.

Financial Statement Preparation

Basis of Accounting. Caltech prepared the JPL financial statements using the modified cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles (GAAP). GAAP require accrual basis accounting whereby an organization records revenue when it is earned and expenses when they are incurred. The cash basis of accounting records revenues when they are received and expenses when they are paid. Caltech uses a modified cash basis of accounting for payroll transactions by recording the expenditure when the time records are submitted (modified cash basis) rather than at the time of payment (cash basis).

Federal Government representatives worked with Caltech to obtain the delinquent OMB Circular A-133 audit of the JPL operations. We acknowledge that the FY 1997 audit is the first year that Caltech and JPL elected to report their operations separately in accordance with OMB Circular A-133. We also acknowledge that Caltech made critical financial decisions to transition from reporting total entity operations to reporting JPL separately from the campus operations. Caltech

reported its campus operations for its fiscal year ended September 30, 1997, in accordance with GAAP. However, Caltech reported the JPL operations on a basis other than GAAP for its fiscal year ended September 21, 1997.

As stated in the “Audit Scope” section above, PwC performed the 1997 and 1998 audits of JPL within a 6-month timeframe. Therefore, JPL submitted 1998 financial statements that were still based on the modified cash basis of accounting described in the preceding paragraphs. However, JPL issued its 1999 financial statements in accordance with GAAP (accrual basis of accounting).

Statement of Assets and Liabilities. Caltech operates JPL primarily under NASA contract NAS7-1260. Caltech did not prepare the required Statement of Assets and Liabilities for the FY 1997 audit of JPL because of the nature of the NASA contract. First, JPL does not have a cash balance because Caltech manages the cash withdrawals on the NASA letter of credit.¹⁸ Second, JPL does not own any property, plant, or equipment because NASA has title to these assets.

The Codification of Statements on Auditing Standards, §623, “Special Reports,” paragraph 7, states that terms such as Statement of Financial Position are generally understood to be applicable only to financial statements presented in accordance with generally accepted accounting principles. Therefore, financial statements that are presented on a basis other than generally accepted accounting principles should contain a different term for the statement. For example, §623.07 states that for a cash basis financial statement, the term “Statement of Assets and Liabilities” is acceptable.

As stated in the “Basis of Accounting” section above, Caltech elected under the provisions of OMB Circular A-133, to report its JPL operations separately. JPL issued its 1998 financial statements on a modified cash basis of accounting, a basis other than GAAP. Accordingly, JPL should have issued a Statement of Assets and Liabilities. However, as stated in the “Audit Scope” section above, PwC performed the 1997 and 1998 audits of JPL in a 6-month timeframe rather than at the end of each 12-month fiscal period. As a result, JPL did not submit the 1998 financial statements with a Statement of Assets and Liabilities.

JPL issued its 1999 financial statements on the accrual basis of accounting, which is GAAP. The 1999 JPL financial statements included a Statement of Financial Position.

Unresolved Costs

On June 29, 1999, the DCAA JPL suboffice issued Audit Report No. 4901-98J10150001S1, “Supplement to Report on OMB Circular A-133 Audit of Fiscal Year 1997 Compliance with Requirements Applicable to the Federal Research and Development Program.” DCAA

¹⁸A letter of credit is a method of advance payment.

Appendix D

qualified its reported opinion on compliance in relation to the unresolved subcontract and interdivisional transfer costs because DCAA did not receive the audit results from other DCAA offices.¹⁹

Subcontract Costs. OMB Circular A-133 §___.105, “Definitions,” states that a pass-through entity is “... a non-Federal entity that provides a Federal award to a subrecipient to carry out a Federal program.” Section ___.105 further defines a subrecipient as “... a non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program ... A subrecipient may also be a recipient of other Federal awards directly from a Federal awarding agency.” JPL is the subrecipient of the NASA contract to Caltech, which is the pass-through entity. Other organizations that receive subcontracts from the main NASA contract are also subrecipients. In general, OMB Circular A-133 §___.400(d) requires that the pass-through entity provide information about the main award to the subrecipient and inform the subrecipient of applicable Federal laws, regulations, and the provisions of contracts or grant agreements, including additional requirements of the pass-through entity. The pass-through entity must also monitor the subrecipient’s activities to ensure that Federal awards are used for authorized purposes; ensure that, when applicable, the subrecipients obtain single audits; issue timely management decisions on subrecipient audit findings and ensure that subrecipients take corrective action; and consider whether subrecipient findings require adjustment to the pass-through entity’s records. OMB Circular A-133 Compliance Supplement, Part III, section M, “Subrecipient Monitoring,” requires the auditor to determine whether the pass-through entity performed these functions.

The DCAA JPL suboffice qualified its 1997 report for subcontract costs of about \$354 million or 30 percent of total expenditures. These costs are material to JPL and must be resolved for DCAA to determine overall compliance for JPL.

On December 7, 1999, the DCAA JPL suboffice issued Audit Report No. 4901-1998J10100603, “Report on Jet Propulsion Laboratory’s (JPL) Compliance with Requirements Applicable to the Federal Research and Development Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, Fiscal Year 1998.” DCAA qualified its reported opinion on compliance in relation to the unresolved subcontract costs of about \$289 million or about 23 percent. As with the 1997 audit, these costs are material to JPL and must be resolved for DCAA to determine overall compliance for JPL. As of the last day of our review, the DCAA auditors were still pursuing the resolution of the unresolved subcontract costs for the 1997 and 1998 audits.

On June 29, 2000, the DCAA JPL suboffice issued Audit Report No. 4901-1999J10100001, “Report on Jet Propulsion Laboratory’s (JPL) Compliance Over Its Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, Fiscal Year 1999.”

¹⁹DCAA requested audits from other DCAA offices for Federal funds awarded by JPL to other organizations.

Appendix D

PwC has been responsible for subrecipient monitoring in prior OMB Circular A-133 audits. However, for the 1997 and 1998 audits, the DCAA auditors continued their practice of requesting assist audits to account for all the expenditures within their audit scope. To address the OIG concern regarding unresolved costs, DCAA recognized that the PwC audit scope included subrecipient monitoring. As discussed above, the PwC auditors are responsible to ensure that JPL obtained the appropriate audits from its subrecipients and, if applicable, that JPL adjusted its records based on the results of the subrecipient audits. For the 1999 audit, DCAA appropriately excluded the assist audit requests from its audit scope because these requests duplicated the PwC audit of subrecipient monitoring. As a result, DCAA did not qualify its reported opinion on compliance for unresolved subcontract costs.

Interdivisional Transfer Costs. The DCAA JPL suboffice qualified its 1997 report for about \$48 million of interdivisional costs between JPL and Caltech. The DCAA JPL office asked the DCAA Caltech suboffice to audit these costs. The DCAA Caltech audit results were not available when the DCAA JPL suboffice issued its audit report. The DCAA Caltech suboffice issued Audit Report No. 4901-98P10250001, “Audit of Fiscal Year 1997 Interdivisional Transfers,” on June 29, 1999. The DCAA Caltech auditors reported questioned costs of \$295,608 from the claimed interdivisional transfers of about \$57 million. Appendix E of that report identifies the questioned costs that NASA will resolve with Caltech.

There were no qualifications for interdivisional transfers in the DCAA audit reports on JPL FY’s 1998 and 1999.

Other Reportable Matters

DCAA Audit Report No. 4901-1999J10100001 identified (in Appendix 2 of the report) the following internal control deficiencies that management should be aware of to take immediate corrective action.

Erroneously Booked Expenditures. JPL did not record costs by the correct expenditure type, which may indicate an internal control weakness that could affect the costs represented in the accounting records.

Significant Costs Inadequately Disclosed. JPL did not properly disclose significant types and categories of costs in its Disclosure Statement.²⁰ Without adequate disclosure, JPL’s ability to properly assign costs to its indirect cost pools could be adversely affected.

²⁰A Disclosure Statement, which is required by the Cost Accounting Standards Board, discloses an entity’s cost accounting practices.

Appendix E. Management's Response



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PQA 225.5(A0005200)

March 15, 2001

Mr. Russell A. Rau
Assistant Inspector General for Auditing
Office of Inspector General
National Aeronautics and Space Administration, Headquarters
Washington, DC 20546-0001

SUBJECT: Comments on Draft Quality Control Review Report on Jet Propulsion Laboratory
Assignment No. A0005200

Dear Mr. Rau:

Thank you for the opportunity to respond to the subject draft report. The subject report provides the results of your office's quality control review of the OMB Circular A-133 audits performed at the Jet Propulsion Laboratory (JPL) for fiscal years (FYs) 1998 and 1999. PricewaterhouseCoopers (PwC) and DCAA performed the audits on a coordinated basis. JPL is a Federally Funded Research and Development Center (FFRDC) managed by the California Institute of Technology. Our comments on the individual report recommendations follow.

Recommendation 1. The DCAA should document its working papers for the period of availability of Federal funds compliance requirement for the FY 1999 and future audits to adequately describe:

- The five components of internal controls to enable an independent reviewer to understand the internal controls the auditors relied on and tested.
- The planned and completed tests of internal control.

DCAA Comments to Recommendation 1. Concur. We are taking the following actions on the NASA IG recommendation:

- We are improving the documentation of the five components of internal control for the period of availability of funds for the FY 1999 audit, and we are incorporating the improvements into our FY 2000 audit, which is in process.
- We are organizing the documentation in our files to present a clearer identification of the five components of internal control and how they relate to the compliance requirements of the audit scope. We will create a concise summary of our understanding of the system of internal controls which not only documents the system but also provides the auditor's summary of the conclusions regarding the internal controls. We expect the

PQA 225.4(A0005200)

SUBJECT: Comments on Draft Quality Control Review Report on Jet Propulsion Laboratory
Assignment No. A0005200

revised internal control working papers for FY 1999 to be completed by March 30, 2001.

- We are adding a summary of the attributes and criteria tested in the FY 1999 audit files of JPL to significantly improve the documentation of our understanding of the attributes tested and the results of the selected items. The revised working papers will detail the specific attributes and criteria tested to allow the reviewer to quickly assess the compliance with the audit program steps and to understand the overall audit conclusions. We expect the revised working papers to be completed by March 30, 2001.

Recommendation 2. The DCAA should document the working papers for the cash management compliance requirement for the FY 1999 and future audits to adequately describe:

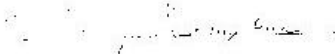

- The internal controls the auditors planned to rely on and test.
- The criteria used to test internal controls and compliance.

DCAA Comments to Recommendation 2. Concur. We are taking the following actions on the NASA IG recommendation:

- For cash management, we are improving the documentation of working papers to more clearly identify the specific cash management internal controls that we relied on and the criteria used to test them. We are improving the working papers that document our testing for compliance to adequately explain the purpose of the working papers, the criteria and attributes used for the testing, and the work that was performed. We expect the revised working papers to be completed by March 30, 2001.

DCAA is implementing the recommended actions in both the JPL FY 1999 and FY 2000 audit working papers. We will provide your office documentation evidencing completion of our audit effort.

Please direct any questions you may have regarding this memorandum to Mr. Marc Parvin, Quality Assurance Division, DCAA Headquarters, at (703) 767-2250 or to the following E-mail address: dcaa-pqa@dcaa.mil.


 Lawrence P. Uhlfelder
Assistant Director
Policy and Plans

Appendix F. Report Distribution

Audit Firm/Auditor

Mr. Ron Bartlett, Partner
PricewaterhouseCoopers LLP
400 Hope Street
Los Angeles, CA 90071-2889

Ms. Barbara Armstrong, Branch Manager
San Gabriel Valley Branch Office
Defense Contract Audit Agency
1000 East Lakes Drive, Suite 300
West Covina, CA 91790-2900

Mr. Lawrence P. Uhlfelder
Assistant Director, Policy and Plans
Defense Contract Audit Agency
8725 John J. Kingman Road, Suite 2353
Fort Belvoir, VA 22060-6219

Mr. Albert Horvath
Associate Vice President for Finance and Controller
California Institute of Technology
4800 Oak Grove Drive
Pasadena, CA 91109

National Aeronautics and Space Administration (NASA) Officials-in-Charge

A/Administrator
AA/Chief of Staff
AI/Associate Deputy Administrator
AO/Chief Information Officer
B/Acting Chief Financial Officer
B/Comptroller
BF/Director, Financial Management Division
G/General Counsel
H/Associate Administrator for Procurement
JM/Director, Management Assessment Division
L/Acting Associate Administrator for Legislative Affairs

NASA Field Installation

Director, Jet Propulsion Laboratory

NASA Assistant Inspector General for Auditing Reader Survey

The NASA Office of Inspector General has a continuing interest in improving the usefulness of our reports. We wish to make our reports responsive to our customers' interests, consistent with our statutory responsibility. Could you help us by completing our reader survey? For your convenience, the questionnaire can be completed electronically through our homepage at <http://www.hq.nasa.gov/office/oig/hq/audits.html> or can be mailed to the Assistant Inspector General for Auditing; NASA Headquarters, Code W, Washington, DC 20546-0001.

Report Title: Final Report on Quality Control Review of PricewaterhouseCoopers LLP and Defense Contract Audit Agency Audit of the Jet Propulsion Laboratory Managed by the California Institute of Technology for the Fiscal Years Ended September 20, 1998, and September 26, 1999 (Assignment No. A0005200)

Report Number: _____ **Report Date:** _____

Circle the appropriate rating for the following statements.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	N/A
1. The report was clear, readable, and logically organized.	5	4	3	2	1	N/A
2. The report was concise and to the point.	5	4	3	2	1	N/A
3. We effectively communicated the audit objectives, scope, and methodology.	5	4	3	2	1	N/A
4. The report contained sufficient information to support the finding(s) in a balanced and objective manner.	5	4	3	2	1	N/A

Overall, how would you rate the report?

Excellent Fair Very Good Poor Good

If you have any additional comments or wish to elaborate on any of the above responses, please write them here. Use additional paper if necessary. _____

How did you use the report? _____

How could we improve our report? _____

How would you identify yourself? (Select one)

Congressional Staff

NASA Employee

Private Citizen

Government: _____ Federal: _____ State: _____ Local: _____

Media

Public Interest

Other: _____

May we contact you about your comments?

___ Yes Name: _____

Telephone #: _____

___ No

Thank you for your cooperation in completing this survey.

Major Contributors to the Report

Patrick A. Iler, Director, Audit Quality

Vera J. Garrant, A-133 Audit Manager

Sandra L. Laccheo, Auditor

Nancy C. Cipolla, Report Process Manager