

Office of Inspector General

December 13, 1999

Mr. John Theis, Partner  
Ernst & Young LLP  
1225 Connecticut Avenue, NW  
Washington, DC 20036

Re: Final Report on Ernst & Young LLP Audit of the Universities Space Research  
Association (USRA) for Fiscal Year Ended June 30, 1999, and Follow-Up of Audit of  
USRA for Fiscal Year Ended June 30, 1998  
Assignment No. A0000600  
Report No. IG-00-001

Dear Mr. Theis:

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 any questions concerning the report, please contact Mr. Patrick A. Iler, Director, Audit Quality, at (216) 433-5408, or Ms. Vera Garrant, A-133 Audit Manager, at (202) 358-2596. We appreciate the courtesies extended to the audit staff. The report distribution is in Appendix D.

Sincerely,

**[Original signed by]**

Russell A. Rau  
Assistant Inspector General for Auditing

Enclosure

cc:

AO/Chief Information Officer  
B/Chief Financial Officer  
B/Comptroller  
BF/Director, Financial Management Division  
G/General Counsel  
H/Associate Administrator for Procurement

JM/Director, Management Assessment Division

**IG-00-001**

**QUALITY  
CONTROL  
REVIEW  
REPORT**

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**ERNST & YOUNG LLP AUDIT OF THE UNIVERSITIES  
SPACE RESEARCH ASSOCIATION (USRA) FOR  
FISCAL YEAR ENDED JUNE 30, 1999, AND FOLLOW-  
UP OF AUDIT OF USRA FOR FISCAL YEAR ENDED  
JUNE 30, 1998**

**December 13, 1999**

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National Aeronautics and  
Space Administration

**OFFICE OF INSPECTOR GENERAL**

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## **Acronyms**

GAAP	Generally Accepted Accounting Principles
USRA	Universities Space Research Association
NASA	National Aeronautics and Space Administration
OIG	Office of Inspector General
OMB	Office of Management and Budget
E&Y	Ernst & Young LLP

# NASA Office of Inspector General

IG-00-001  
A0000600

December 13, 1999

## Ernst & Young LLP Audit of the Universities Space Research Association (USRA) for Fiscal Year Ended June 30, 1999, and Follow-Up of Audit of USRA for Fiscal Year Ended June 30, 1998

### Introduction

The Universities Space Research Association (USRA) of Columbia, Maryland, is a not-for-profit corporation that provides universities and other organizations the means to cooperate in acquiring knowledge about space science and technology. USRA's principal purpose is to operate laboratories and other facilities under contracts, grants, and cooperative agreements, mainly with the Federal Government, for research, development, and education associated with space science and technology.

The National Aeronautics and Space Administration (NASA) is the cognizant audit agency for USRA. The NASA, Office of Inspector General (OIG) performed a review of the Ernst & Young LLP (E&Y) audit of USRA for the fiscal year ended June 30, 1999, and a follow-up review of the June 30, 1998, audit work. The single audits are required by Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," revised June 24, 1997. The office of E&Y, Fairfax, Virginia, performed the single audits of USRA. USRA reported fiscal year expenditures shown in the table below.

#### Fiscal Year Expenditures for USRA

	1998	1999
NASA Direct Expenditures	\$70,810,405	\$75,850,031
Total Direct Expenditures	\$72,597,277	\$77,581,678

Appendix A provides details on the single audit requirements.

### Objectives

The objective of our report review was to determine whether the report USRA submitted meets the applicable reporting standards and OMB Circular A-133 reporting requirements.

The objectives of our quality control review were to determine whether E&Y conducted the audit in accordance with applicable standards and whether the audit met the auditing and reporting requirements of OMB Circular A-133.

The objective of our follow-up review was to determine whether USRA and E&Y implemented the recommendations from our report on the 1998 audit.<sup>1</sup> See Appendixes B and C for details on the objectives, scope, and methodology.

## Results of Review

We reviewed the E&Y audit results, audit report format, and related working papers.

- **Reported A-133 Results for 1999.** On September 17, 1999, E&Y issued the audit report for the USRA fiscal year ended June 30, 1999. The auditors identified no findings and questioned no costs. E&Y 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 must be reported under generally accepted government auditing standards. Finally, the auditors identified no material weaknesses related to internal controls for the financial statement or major programs.
- **Quality Review Results for 1999 Report.** The E&Y audit report meets the applicable auditing and reporting guidance and regulatory requirements contained in (1) OMB Circular A-133 and its related Compliance Supplement, (2) generally accepted government auditing standards, and (3) generally accepted auditing standards.
- **Quality Review Results for 1999 Audit.** The E&Y audit work meets the applicable auditing guidance and requirements contained in (1) OMB Circular A-133 and its related Compliance Supplement, (2) generally accepted government auditing standards, and (3) generally accepted auditing standards.
- **Follow-Up Review of 1998.** The objective of our follow-up review was to determine whether USRA and E&Y implemented the recommendations from our report on the 1998 audit.<sup>1</sup> E&Y and USRA agreed to the recommendations in the report. Specifically, USRA management agreed to prepare a Schedule of Expenditures of Federal Awards in accordance with the requirements of OMB Circular A-133 that identifies major programs, Federal programs by Federal agency, and includes explanatory notes. E&Y agreed to:
  - Document the working papers for results of the auditors' understanding of the 5 internal control elements related to each of the 14 compliance requirements that could have a direct and material effect on each major program and the audit sampling criteria for major programs.

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Report <sup>1</sup>IG-99-029, "Ernst & Young LLP Audit of Universities Space Research Association for Fiscal Year Ended June 30, 1998," dated June 17, 1999

(Appendix A of this report describes the internal control elements and compliance requirements.)

- Revise the Schedule of Findings and Questioned Costs and the applicable sections of the Data Collection Form.
- Ensure that the staff assigned to the USRA audit obtain training specifically related to the revised OMB Circular A-133 requirements.

USRA and E&Y satisfactorily implemented our recommendations. USRA submitted a revised OMB Circular A-133 audit report with a revised Schedule of Expenditures of Federal Awards that meets the reporting requirements of OMB Circular A-133.

As required by generally accepted government auditing standards, E&Y documented its working papers to provide a better understanding of the (1) 5 internal control elements related to each of the 14 compliance requirements<sup>2</sup> that could have a direct and material effect on each major program and (2) the audit sampling criteria for major programs. The staff assigned to the USRA audit obtained training specifically related to the revised OMB Circular A-133 requirements and revised the Schedule of Findings and Questioned Costs.

E&Y and USRA corrected the Data Collection Form<sup>2</sup> through a letter to the Federal Audit Clearinghouse that was signed by both organizations.

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<sup>2</sup> See Appendix A for additional information.

## **Appendix A. Single Audit Requirements**

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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.

OMB issued the revised Circular A-133 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 the:

- 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.



The Compliance Supplement is based on the requirements of the Single Audit Act Amendments of 1996 and the final June 24, 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, 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

## Appendix A

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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**

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### **1999 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 USRA, we performed a review of the audit report on USRA for the fiscal years ended June 30, 1998, and June 30, 1999. We reviewed the report 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 report's 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.

### **1999 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 standards<sup>3</sup> 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 USRA, we conducted a quality control review of the E&Y audit working papers. We focused the review on the audit's qualitative aspects of:

- auditor's qualifications,
- independence,
- due professional care,
- quality control,
- planning and supervision,
- Federal receivables and payables,
- major program determination,
- internal controls and compliance testing for major programs,
- 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 October 18 through 20, 1999, at the Washington, D.C., office of E&Y. The NASA Office of Inspector General previously performed a quality control review at another E&Y location that did not result in any findings.

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<sup>3</sup>These standards, promulgated by the Comptroller General of the United States, are broad statements of the auditors' responsibilities..

### 1998 Follow-Up Review

The objective of our follow-up review was to determine whether USRA and E&Y implemented the recommendations in our report on the 1998 audit.<sup>4</sup> USRA and E&Y agreed to the recommendations from the report. Specifically, USRA management agreed to prepare a Schedule of Expenditures of Federal Awards in accordance with the requirements of OMB Circular A-133 that identifies major programs, Federal programs by Federal agency, and includes explanatory notes. E&Y agreed to:

- Document the working papers for results of the auditors' understanding of the 5 internal control elements related to each of the 14 compliance requirements that could have a direct and material effect on each major program and the audit sampling criteria for major programs.
- Revise the Schedule of Findings and Questioned Costs and the applicable sections of the Data Collection Form.
- Ensure that the staff assigned to the USRA audit obtain training specifically related to the revised OMB Circular A-133 requirements.

### Peer Review Report

We reviewed the November 3, 1998, report on the most recent peer review of E&Y, performed by KPMG Peat Marwick LLP. KPMG Peat Marwick LLP determined that E&Y met the objectives of the quality control review standards established by the American Institute of Certified Public Accountants and that E&Y complied with the standards during the fiscal year ended June 30, 1998.

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<sup>4</sup>IG-99-029, "Ernst & Young LLP Audit of Universities Space Research Association for Fiscal Year Ended June 30, 1998," dated June 17, 1999

## **Appendix C. Quality Control Review Methodology**

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### **Report of Independent Auditors on Audited Financial Statements and Other Financial Information**

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. We reviewed the 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.

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 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 Awards**

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

### **Report 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 audit programs for the appropriate procedures, the working paper documentation, and the compliance and substantive testing performed.

### **Report on Compliance and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

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 (April 1999) 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.

### **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. Report Distribution**

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### **Audit Firms/Auditors**

Mr. John Theis, Partner  
Ernst & Young LLP  
1225 Connecticut Avenue, NW  
Washington, DC 20036

Mr. Harold Guillard, Supervisory Auditor  
Defense Contract Audit Agency  
Columbia Branch Office  
One Mall North, Suite 200  
10025 Governor Warfield Parkway  
Columbia, MD 21044-3329

### **Audited Organization**

Dr. David Cummings, Executive Director  
Universities Space Research Association  
10227 Wincopin Circle, Suite 212  
Columbia, MD 21044

### **Federal Offices of Inspector General**

Department of Defense  
National Science Foundation

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

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B/Chief Financial Officer  
B/Comptroller  
BF/Director, Financial Management Division  
G/General Counsel  
H/Associate Administrator for Procurement  
JM/Director, Management Assessment Division

### **NASA Centers**

Director, Ames Research Center

## Appendix C

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Director, Goddard Space Flight Center

Director, Langley Research Center

Director, George C. Marshall Space Flight Center





## NASA Assistant Inspector General for Auditing Reader Survey

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**Report Title:** Ernst & Young LLP Audit of the Universities Space Research Association (USRA) for FY Ended June 30, 1998, and Follow-Up of Audit of USRA for FY Ended June 30, 1999

**Report Number:** \_\_\_\_\_ **Report Date:** \_\_\_\_\_

*Circle the appropriate rating for the following statements.*

	Strongly Agree	Agree	Neutra l	Disagre e	Strongl y Disagre e	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.* \_\_\_\_\_

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***How did you use the report?*** \_\_\_\_\_

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***How could we improve our report?*** \_\_\_\_\_

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***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 \_\_\_\_\_

No \_\_\_\_\_

Name: \_\_\_\_\_

Telephone: \_\_\_\_\_

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

Tewana Hoskins, Program Assistant

Nancy C. Cipolla, Report Process Manager