

**QUALITY
CONTROL
REVIEW
REPORT**

**GOODMAN & COMPANY, L.L.P. AUDIT OF OLD
DOMINION UNIVERSITY RESEARCH FOUNDATION
FOR FISCAL YEAR ENDED JUNE 30, 1998**

March 24, 2000



National Aeronautics and
Space Administration

**OFFICE OF INSPECTOR
GENERAL**

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Acronyms

AICPA	American Institute of Certified Public Accountants
HHS	Department of Health and Human Services
NASA	National Aeronautics and Space Administration
OMB	Office of Management and Budget
R&D	Research and Development
SOP	Statement of Position

Office of Inspector General

March 24, 2000

Mr. Donald H. Britt, Partner
Goodman & Company, L.L.P.
Post Office Box 3247
Norfolk, VA 23514

Re: Final Report on Quality Control Review of Goodman & Company, L.L.P. Audit of
Old Dominion University Research Foundation for Fiscal Year Ended June 30, 1998
Assignment No. A0001400
Report No. IG-00-021

Dear Mr. Britt:

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. Goodman & Company, L.L.P. recommendation numbers 1 through 18 will remain open for reporting purposes until corrective action is completed. Please notify us when action has been completed on the recommendations, including the extent of testing performed to ensure corrective actions are effective.

If you have any questions concerning the report or would like to schedule an exit conference, please contact Mr. Patrick Iler, Director, Audit Quality, Office of Inspector General, 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 final report distribution is in Appendix H of the report.

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

Office of Inspector General

March 24, 2000

Mr. Jerald B. Jones, Director of Finance
Old Dominion University Research Foundation
Post Office Box 6369
Norfolk, VA 23508-0369

Re: Final Report on Quality Control Review of Goodman & Company, L.L.P. Audit of
Old Dominion University Research Foundation for Fiscal Year Ended June 30, 1998
Assignment No. A0001400
Report No. IG-00-021

Dear Mr. Jones:

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. Old Dominion recommendation numbers 19 and 20 will remain open for reporting purposes until corrective action is completed. Please notify us when action has been completed on the recommendations, including the extent of oversight performed to ensure corrective actions are effective.

If you have any questions concerning the report or would like to schedule an exit conference, please contact Mr. Patrick Iler, Director, Audit Quality, Office of Inspector General, 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 final report distribution is in Appendix H of the report.

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Russell A. Rau
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NASA Office of Inspector General

IG-00-021
A0001400

March 24, 2000

Quality Control Review of Goodman & Company, L.L.P. Audit of Old Dominion University Research Foundation For Fiscal Year Ended June 30, 1998

Executive Summary

Introduction. The Old Dominion University Research Foundation (Foundation) of Norfolk, Virginia, a nonprofit corporation, is the designated fiscal and administrative agent for Old Dominion University. The Foundation's purpose is to promote the educational objectives of Old Dominion University by encouraging, advancing, and conducting research in scientific and other fields.

The Department of Health and Human Services (HHS) is the cognizant audit agency for the Foundation. HHS granted the National Aeronautics and Space Administration (NASA), a Federal funding agency to the Foundation, permission to perform a quality control review of the Goodman & Company, L.L.P. audit of the Foundation's fiscal year ended June 30, 1998.¹ Office of Management and Budget (OMB) Circular A-133² requires the audit. The Foundation reported total direct fiscal year Federal expenditures for NASA of \$4,447,883 and total direct expenditures of \$11,981,595 in fiscal year 1998.

Appendix A provides details on the single audit requirements.

Objectives. The objective of our report review is to determine whether the report the Foundation submitted to the Federal Audit Clearinghouse³ meets the applicable reporting standards and OMB Circular A-133 reporting requirements.

The objectives of our quality control review are to determine whether Goodman & Company, L.L.P. conducted the audit in accordance with applicable standards and whether the audit meets the auditing and reporting requirements of OMB Circular A-133. See Appendixes B and C for details on the objectives, scope, and methodology.

¹The Norfolk, Virginia, office of Goodman & Company, L.L.P., performed the single audit for the Foundation's fiscal years ended June 30, 1998, and June 30, 1999.

²"Audits of States, Local Governments, and Non-Profit Organizations." Appendix A contains details on the requirements of the Circular.

³The Single Audit Act Amendments of 1996, §7504(c), requires the Office of Management and Budget to establish the Federal Audit Clearinghouse to receive the Circular A-133 audit reports.

Results of Review. On September 8, 1998, Goodman & Company, L.L.P. issued its audit report on the Foundation. The report and the working papers contained deficiencies.

- **Reported A-133 Results.** Goodman & Company, L.L.P. auditors (1) identified no findings; (2) questioned no costs; and (3) issued an unqualified opinion⁴ on the financial statements, Schedule of Expenditures of Federal Awards,⁵ and major program compliance.⁶ The auditors also found no instances of noncompliance in the financial statement audit that are required to be reported under generally accepted government auditing standards.⁷ Finally, the auditors noted no matters involving internal controls relating to the financial statement or major programs that are considered to be material weaknesses.⁸
- **Audit Quality Review Results.** The Goodman & Company, L.L.P. audit work does not meet 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. As a result, Federal agencies and others cannot rely on the Foundation's audit report to administer Federal awards. The deficiencies are detailed in Finding A. These deficiencies may also affect the FY 1999 audit (Finding C).
- **Report Quality Review Results.** The Foundation's audit report does not meet the applicable auditing and reporting guidance and regulatory requirements contained in OMB Circular A-133. The Foundation did not include notes to the Schedule of Expenditures of Federal Awards as required by OMB Circular A-133. Disclosing this information assists the report user in determining the appropriate procedures for reconciling the report expenditures to the Federal records. The deficiencies are detailed in Finding B.

Quality Control Review Referral. Based on the results of our audit report review and quality control review, we determined that the Goodman & Company, L.L.P. audit work meets

⁴An 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.

⁵The Schedule of Expenditures of Federal Awards is a schedule showing the amount of annual Federal award expenditures by Federal agency for each program, grant, or contract.

⁶Major program compliance refers to an assessment of the auditee's compliance with laws, regulations, and provisions of contracts or grant agreements that could have a direct and material effect on each major program.

⁷These standards are broad statements of the auditors' responsibilities, promulgated by the Comptroller General of the United States.

⁸The 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."

the President's Council on Integrity and Efficiency's definition of a referable action under the Council's Position Statement 4, "IG [Inspector General] Quality Control Referral Procedures." Therefore, we will refer the staff assigned to this audit to the Virginia Board for Accountancy and the American Institute of Certified Public Accountants (AICPA). Appendix D contains a definition of a referable action and the rationale for our referral of Goodman & Company, L.L.P.

Recommendations. We recommend that Goodman & Company, L.L.P.:

- Reperform the fiscal year 1998 audit in accordance with OMB Circular A-133 and its related Compliance Supplement at no additional cost to the Federal Government.
- Provide training in OMB Circular A-133 requirements for the assigned staff.

We also recommend that the Board of Trustees, Old Dominion University Research Foundation, prepare the related notes to the Schedule of Expenditures of Federal Awards as required by OMB Circular A-133 and determine whether the fiscal year 1999 audit must be reperformed.

Management's Response. Goodman & Company, L.L.P. concurred with the recommendations and planned corrective actions to resolve all deficiencies. Goodman & Company, L.L.P. will reperform the fiscal years 1998 and 1999 audits after its staff is trained in the government auditing standards and the OMB Circular A-133 requirements. The complete text of the response is in Appendix F.

The Board of Trustees concurred with the recommendations. The Board will provide notes to the Schedule of Expenditures of Federal Awards after Goodman & Company, L.L.P. reperforms the fiscal year 1998 audit. The Board will also review the fiscal year 1999 audit to determine whether the same deficiencies exist. The complete text of the response is in Appendix G.

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

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 the Foundation obtain an audit of its fiscal year 1998 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 generally accepted government auditing standards 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.⁹

Appendix A contains additional details on the Single Audit requirements.

⁹Appendix C describes the information contained in the Schedule of Findings and Questioned Costs.

Findings and Recommendations

Finding A. Planning, Evidence, and Training

The Goodman & Company, L.L.P. audit of Old Dominion University Research Foundation does not meet the requirements of OMB Circular A-133 because the auditors did not adequately plan the audit, provide sufficient evidence to support the audit, and obtain adequate training related to the requirements to perform the audit. As a result, the audit is unreliable and must be reperformed.

Audit Planning

Goodman & Company, L.L.P. did not properly plan the audit to meet the OMB Circular A-133 internal control review and compliance auditing requirements.

Audit Requirements. The June 24, 1997, revision of OMB Circular A-133 describes the audit scope in §___.500. In general, the auditors are required to plan the audit to meet the following required internal control and compliance objectives:

- Plan the testing of internal control for each major program to support a low assessed level of control risk for the assertions relevant to the compliance requirements.
- Perform the planned internal control testing.
- Determine whether the audited organization has complied with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect on each of the major programs audited.

To accomplish these objectives, paragraph 4.6 in the planning section of the generally accepted government auditing standards states:

“The work is to be properly planned, and auditors should consider materiality,¹⁰ among other matters, in determining the nature, timing, and extent of auditing procedures and in evaluating the results of those procedures.”

Internal Control. Goodman & Company, L.L.P. did not adequately plan the review of internal control for the research and development (R&D) program to meet the requirements of the revised OMB Circular A-133. 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

¹⁰A misstatement that can be considered significant if knowledge of the misstatement would affect a decision of a reasonable user of the information.

internal control over Federal programs by performing procedures to understand the design of the five elements of internal control¹¹ 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 assertions¹² relevant to the compliance requirements for each major program. SOP 98-3 section 8.16 explains that:

“... 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.”

Goodman & Company, L.L.P. did not plan the audit to obtain an understanding of the 5 elements of internal control for the 14 compliance requirements that are material to the R&D program. (Appendix A contains details on the 14 compliance requirements.) They also did not plan the test of internal controls as required by OMB Circular A-133. The auditors used a standard internal control questionnaire, which did not cover the elements of control for the compliance requirements, to obtain and document information regarding the Foundation’s overall financial and business practices.

Compliance. Goodman & Company, L.L.P. did not adequately plan the audit of the 14 compliance requirements that are material to the R&D program to meet the requirements of OMB Circular A-133. In accordance with OMB Circular A-133 §___.505(c), the auditors are required 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 to use the understanding of the internal controls they obtained to (1) identify types of potential noncompliance, (2) consider factors affecting the risk of material noncompliance, and (3) design compliance tests.

¹¹The five elements of internal control are control environment, risk assessment, control activities, information and communication, and monitoring.

¹²Assertions are explicit or implicit representations by management that are embodied in financial statements elements (assets, liabilities, revenue, and expenses). The assertions are:

- **Existence/Occurrence.** The entity’s assets exist, and the transactions that produced them actually occurred.
- **Completeness.** The financial statements reflect a complete record of all transactions that occurred, and none are omitted.
- **Rights/Obligations.** The entity has valid title to all assets and real obligations for all liabilities.
- **Valuation/Allocation.** The correct methods were used to place values on the assets, and the transactions have been assigned to the correct periods.
- **Presentation/Disclosure.** All the disclosures necessary for full and complete presentation are included in the financial statements.

Goodman & Company, L.L.P. planned to audit about 6 percent of the total fiscal year 1998 Federal expenditures at the Foundation. As explained in the internal control section of this finding, the auditors did not adequately plan the review of internal controls to understand the 5 components of internal controls for each of the 14 compliance requirements. Therefore, the auditors did not adequately plan the R&D compliance audit. The foundation of the compliance audit is based on the effectiveness of the internal controls. Because the auditors did not review or test internal controls, the planned nature and timing of compliance testing is inadequate.

Conclusion. Without proper planning there is no assurance that the OMB Circular A-133 requirements and objectives have been met for internal controls and compliance.

Recommendations, Management's Response, and Evaluation of Response

We recommend that Goodman & Company, L.L.P. revise its planning process for the 1998 audit of the research and development major program at Old Dominion University Research Foundation to comply with the requirements of OMB Circular A-133, generally accepted government auditing standards, and AICPA SOP 98-3. Specifically, the audit plan should be revised to require the auditors to:

- 1. Perform procedures to obtain an understanding of the 5 internal control elements related to each of the applicable 14 compliance requirements.**
- 2. Perform internal control testing.**
- 3. Perform compliance testing that will support an opinion.**

Management's Response. Goodman & Company, L.L.P. concurred with the recommendations and planned corrective actions to resolve the deficiencies. The complete text of the response is in Appendix F.

Evaluation of Management's Response. The actions planned by Goodman & Company, L.L.P. are responsive to the recommendations. The recommendations are resolved but will remain open until the agreed-to corrective actions are completed.

Documented Evidence

Goodman & Company, L.L.P. did not document its working papers to support the conclusions and judgments to identify major programs, classify the Foundation as low-risk, identify major program materiality, review and test internal controls, audit R&D compliance requirements, and review the Schedule of Expenditures of Federal Awards. The auditors also did not obtain management representations related to Federal awards. Finally, the auditors performed neither

internal control testing related to Federal awards nor sufficient compliance testing to support the opinion on compliance.

Working Paper Documentation and Retention Requirements. In general, OMB Circular A-133 §___.515(a) requires the auditors to retain the working papers and reports for a minimum of 3 years after the report date. The AICPA Codification of Statements on Auditing Standards §339.05, “Content of Working Papers,” and generally accepted government auditing standards, 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 the applicable standards of field work have been met. Generally accepted government auditing standards further state that the form and content of the working papers should allow an experienced auditor to understand the auditor’s significant conclusions and judgments. In general, the working papers should document the objectives, scope, and methodology, including the sampling criteria the auditors 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.

The Goodman & Company, L.L.P. working paper policy requires the auditors to document the working papers to support the auditors’ procedures, conclusions, and judgments regarding the audit. However, the policy also permits the auditors to discard supporting working papers or store them with the auditee after the partner has completed his or her final review of the working paper file. In accordance with the policy, the lead (summary) working paper for each section should include enough information to describe the work and procedures performed to support the auditors’ judgments and conclusions.

The auditors prepared the working papers for the Foundation’s fiscal year 1998 audit in accordance with the Goodman & Company, L.L.P. working paper documentation policy, which does not fully comply with generally accepted government auditing standards, OMB Circular A-133 requirements, and AICPA standards.

Identifying Major Programs. OMB Circular A-133 requires an audit of the Federal awards that qualify as major programs using the risk-based approach described in §___.520 of the Circular. In general, the risk-based approach requires the auditors to determine major programs based on dollar thresholds and risk analyses. The Federal expenditures at the Foundation are all part of the R&D program. Part 5 of the OMB Circular A-133 Compliance Supplement,¹³ requires the auditor to group the R&D expenditures into a cluster.¹⁴ In accordance with OMB Circular A-133 §___.520, all the awards that comprise the R&D program cluster are considered together when determining major programs. Goodman & Company, L.L.P. identified R&D as a major program in the audit report. The auditors identified the Federal R&D awards with the largest expenditures. Starting with the largest, the

¹³ Refer to Appendix A for additional details on the Compliance Supplement.

¹⁴ OMB Circular A-133 Compliance Supplement, Part 5, defines a cluster as “...closely related programs that share common compliance requirements.” Research and development awards are considered a cluster.

auditors audited only the high-dollar awards that when the expenditures are summarized, comprise about 25 percent of the total Federal expenditures. This approach allowed the auditors to meet the percentage of coverage rule.¹⁵ According to the auditors, this audit approach is based on an agreement with the cognizant agency for audit. However, the audit working papers do not document the agreement, audit procedures, conclusions, or judgments to support the R&D awards audited.

Classification of Low-Risk. Goodman & Company, L.L.P. did not adequately document its determination to classify the Foundation as a low-risk auditee. OMB Circular A-133 §___.530 allows an auditee to be eligible for reduced audit coverage (“low-risk auditee”) if it meets all the stated conditions for each of its preceding 2 fiscal years. The auditors are required to audit 25 percent of the Federal expenditures for low-risk auditees, compared to 50 percent for organizations that do not meet the necessary conditions to be classified as a low-risk auditee. There is no supporting documentation in the working papers to show that the Foundation met the conditions for being classified a low-risk auditee. Without adequate documentation, the 25-percent population of Federal expenditures audited (percentage of coverage rule) is inadequate.

Major Program Materiality. Goodman & Company, L.L.P. did not determine and document in the working papers the materiality level for the R&D major program. Generally accepted government auditing standards, section 4.6, requires the auditor to consider materiality when planning the audit procedures and evaluating the results of those procedures. AICPA SOP 98-3, sections 3.35 and 6.14, state that materiality for Federal programs is in relation to each major program audited and should be determined for each major program, not for all major programs combined. Without identification of the materiality level assigned by the auditors to the major program, an independent reviewer cannot understand the auditors’ determination about whether potential noncompliance materially affects the Federal program audited. Also, the reviewer cannot understand the auditors’ significant conclusions and judgments regarding compliance.

Internal Control Review and Testing. Goodman & Company, L.L.P. did not document and perform the review and testing of the internal controls for major programs to meet the requirements of the revised OMB Circular A-133. Generally accepted government auditing standards, section 4.21, and OMB Circular A-133 §___.500(c)(1) and (2) require the auditors to obtain a sufficient understanding of internal controls to plan the audit and to determine the nature, timing, and extent of testing to support at least a low level of control risk¹⁶ for major programs. AICPA SOP 98-3, sections 8.7, 8.9 and 8.10, state that the auditors must perform procedures to understand the design of the five internal control components (control environment; risk assessment; control activities; information and communication; and monitoring)

¹⁵ The percentage of coverage rule is described in OMB Circular A-133 §___.520(f). In general, major programs audited must represent at least 50 percent of the total Federal expenditures. If the auditee meets the criteria for a low-risk auditee, only 25 percent of the total Federal expenditures need to be audited.

¹⁶ AICPA SOP 98-3, section 6.7, defines control risk as “...the risk that material noncompliance that could occur in a major program will not be prevented or detected on a timely basis by the entity’s internal control.”

related to the A-133 compliance requirements for each major program and determine whether those controls are in operation. OMB Circular A-133 Compliance Supplement, Part 6, provides guidance to review the five components of internal controls for each type of compliance requirement. The information in the Supplement is intended to assist non-Federal entities and their auditors in complying with the internal control requirements by describing the objectives of internal control and certain characteristics that when present and operating effectively, may ensure compliance with the program requirements. If internal controls are deemed ineffective, the auditors are not required to plan or perform the internal controls testing for the compliance requirement.¹⁷

The auditors must assess control risk for the assertions related to the A-133 compliance requirements for each major program and then perform the planned testing. The OMB Circular A-133 Compliance Supplement does not provide suggested audit procedures because of the diverse internal control systems among Federal award recipients. Therefore, the auditor must determine the appropriate internal control procedures.

Goodman & Company, L.L.P. inappropriately used a standard internal control questionnaire checklist to obtain information and document the Foundation's financial and business practices in the working papers. The auditors used the responses to the questionnaire as their basis to understand internal controls over Federal awards. The "Yes," "No," and "N/A" responses to the checklist do not document the auditors' understanding of the 5 components of internal control for the 14 compliance requirements that are applicable to the R&D major program. The auditors' "Test of Controls Form" references the same working paper to support the auditors' compliance testing as well as the test of internal controls. However, based on a discussion with the Audit Manager, a copy of Part 3 of the Compliance Supplement serves as the documentation for the attributes tested in that working paper section. Part 3 addresses compliance testing, not internal control. Therefore, there is no documented support that the auditors obtained an understanding of internal control for the R&D major program or that the auditors tested internal controls for the 14 compliance requirements that are material to the R&D major program.

Without sufficient documentary evidence to support the review and test of internal controls, an independent reviewer cannot understand the auditors' basis to rely on internal controls and whether reportable conditions or material noncompliance exist within the major program. In addition, Federal agencies cannot rely on the audit report's assurance that internal controls are in place and operating effectively for the major programs that are identified in the audit report. Also, an independent reviewer does not know the auditors' basis for the conclusions on internal control and, therefore, the reviewer has no basis to rely on the Foundation's internal controls.

¹⁷ Refer to the 14 compliance requirements identified in Appendix A. All these requirements are applicable to the R&D program.

Compliance Audit. The auditors did not perform sufficient work and adequately document the working papers to support the opinion on compliance. OMB Circular A-133 Compliance Supplement, Part 2 states that all 14 compliance requirements¹⁸ are applicable to the research and development program. 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 Compliance Supplement provides the auditors guidance to review compliance for each of the 14 compliance requirements. This information is intended to assist the auditors to plan and perform tests to determine whether the auditee complied with the Federal program requirements. AICPA SOP 98-3, section 6.6, states that sufficient evidence to support compliance reduces audit risk¹⁹ to an appropriately low level. 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 compliance requirements.

The auditors did not plan, execute, and document a review and test of the internal controls for the R&D program to meet the OMB Circular A-133 requirements. As a result, there is no basis to rely on internal controls to plan and execute compliance tests. The audit working papers do not document that the Foundation’s internal controls exist, are in place, and are operating effectively.

The auditors’ working papers are not documented to support that the Foundation qualifies as a low-risk auditee and to support the sampling criteria the auditors used to determine compliance testing. When an auditee qualifies as low risk, the total of Federal expenditures required to be tested is reduced from 50 to 25 percent. Without documentation to support the low-risk assessment and the sampling criteria, the auditors selected 11 high-dollar awards for testing that represent 25 percent of the total Federal expenditures.²⁰ As the basis for the opinion on compliance, the auditors tested three transactions from each award and recalculated indirect costs. Appendix D contains additional details on the audit coverage.

The audit working papers also do not document the compliance attributes tested for each of the 14 compliance requirements. The auditors included a copy of Part 3, “Compliance Requirements,” from the OMB Circular A-133 Compliance Supplement in their working papers without documenting the purpose of the working paper. The auditors orally explained that Part 3 was the basis for the performed procedures and tested attributes to opine on

¹⁸Appendix A identifies the 14 compliance requirements.

¹⁹ AICPA SOP 98-3, section 6.7, defines audit risk as the risk that “. . . the auditor may unknowingly fail to appropriately modify his or her opinion on compliance.”

²⁰The working papers do not document the total number of Federal awards in the population from which the 11 awards were selected for testing.

compliance. However, the auditors could not demonstrate that all the procedures and attributes from the Supplement were applicable and tested.

Without the internal control assurance, support for the low-risk auditee classification, documentation of the sample plan, and identification of the attributes tested, the nature and extent of the auditors' testing for compliance are inadequate to support an opinion. 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, there is no evidence that the audit work was performed in accordance with the requirements of OMB Circular A-133, its related Compliance Supplement, generally accepted government auditing standards, and the AICPA auditing standards. Also, Federal agencies and others cannot rely on the audit report to administer Federal awards when the opinion on compliance is not supported by the work performed.

Federal Award Management Representations. AICPA Statement on Auditing Standards No. 85, "Management Representations," requires the independent auditor to obtain written management representations as part of the financial statement audit. AICPA SOP 98-3, section 4.40, states the auditors should consider obtaining additional financial statement representations from management that address the single audit. Section 6.68 states that the auditors should also consider obtaining written representations about Federal awards. For example, management should attest to the completeness of Federal award programs, compliance with requirements, and identification of known questioned costs. Section 6.69 lists the Federal award representations the auditors should consider obtaining from management.

Goodman & Company, L.L.P. did not obtain management representations related to Federal awards. Written management representations are part of the evidential matter obtained by the independent auditors to complement other auditing procedures. These representations usually confirm explicit or implicit representations given to the auditors, indicate and document the appropriateness of such representations annually, and reduce possible misunderstandings about the matters represented. Generally, the auditors apply auditing procedures that are specifically designed to obtain evidential matter about the matters represented. Without the written management representations, there is no assurance that the audit and report are complete.

Goodman & Company, L.L.P. uses a standard management representation letter for all its non-profit clients. Although the letter includes single audit representations related to the financial statements, Goodman & Company, L.L.P. has not modified the letter to reflect the Federal awards representations for clients subject to the OMB Circular A-133 auditing and reporting requirements. For example, there is no representation that the Foundation disclosed known noncompliances to the auditors. Although the audit report identifies no findings or questioned costs, the representations would acknowledge whether the Foundation disclosed known findings that were identified during the fiscal year. Without the representation there is no assurance that all known findings have been reported. Another example is disclosing the

applicable laws and regulations that are material to the Federal awards. Based on the fact that the auditors did not document the compliance procedures and attributes tested, there is no assurance that the auditors tested the laws and regulations applicable to the R&D program.

Schedule of Expenditures of Federal Awards. OMB Circular A-133 §___.505(a) and AICPA SOP 98-3, section 5.1, require the auditors to opine on whether the Schedule of Expenditures of Federal Awards is presented fairly in all material respects in relation to the Foundation's financial statements as a whole. To accomplish this, AICPA SOP 98-3, sections 5.4 and 5.5, require the auditors to:

- Determine that the Foundation was able to reconcile amounts presented in the Schedule to amounts in the financial statements.
- Assess the appropriateness and completeness of the Foundation's identification of Federal programs included in the Schedule.
- Consider whether a reportable condition existed if the Foundation was unable to identify federally funded expenditures separately.
- Determine that the Foundation properly disclosed the basis of accounting and the significant accounting policies used in preparing the Schedule.

The audit working papers do not include documentation to show that the auditors reviewed the Schedule of Expenditures of Federal Awards that was prepared by the Foundation. The working papers also do not document the auditors' review of the Foundation's reconciliation of the final Schedule of Expenditures of Federal Awards to the financial statements. The auditors used a preliminary Schedule to identify the awards within the R&D program cluster that would be audited. The difference between the preliminary and the final Schedule is \$619,670.31, or about 4.4 percent of total Federal expenditures. The working papers are not documented to conclude whether the difference is immaterial to the overall expenditures or to any individual award. Without adequate working paper documentation, an independent reviewer cannot rely on the auditors' opinion that the Schedule presented in the audit report is fair in all material respects in relation to the financial statements taken as a whole. In addition, the reviewer cannot determine whether the Schedule was prepared from the same books and records as the financial statements.

Recommendations, Management's Response, and Evaluation of Response

We recommend that Goodman & Company, L.L.P.:

- 4. Revise its working paper documentation and retention policy to state that all working papers must be retained to comply with the requirements of generally accepted government auditing standards and with OMB Circular A-133 and AICPA working paper retention requirements.**
- 5. Document in the working papers its judgments, procedures, and conclusions regarding:**
 - major program identification,**
 - low-risk auditee classification,**
 - major program materiality, and**
 - review of the Schedule of Expenditures of Federal Awards.**
- 6. Perform procedures to obtain an understanding of the 5 internal control elements related to each of the applicable 14 compliance requirements for the R&D major program at the Old Dominion University Research Foundation as required by OMB Circular A-133.**
- 7. Document its understanding of internal controls for the R&D major program as required by the generally accepted government auditing standards and the AICPA Statement on Auditing Standards.**
- 8. Perform internal control testing of the R&D major program as required by OMB Circular A-133 and generally accepted government auditing standards.**
- 9. Document the procedures and results of the internal control testing of the R&D major program in accordance with generally accepted government auditing standards and the AICPA Statement on Auditing Standards.**
- 10. Document the audit sampling criteria for major programs in accordance with generally accepted government auditing standards.**
- 11. Perform adequate compliance testing of the R&D major program that meets the OMB Circular A-133 requirements.**
- 12. Document the procedures and attributes used to test compliance with the Federal program requirements for each major program as required by the generally accepted government auditing standards, AICPA Statement on Auditing Standards, and OMB Circular A-133.**
- 13. Document its conclusions regarding the compliance testing of the R&D major program as required by generally accepted government auditing standards.**

14. Revise the standard non-profit management representation letter to include representations related to OMB Circular A-133 when the audit also includes Federal awards.

15. Obtain management representations related to Federal awards.

Management's Response. Goodman & Company, L.L.P. concurred with all the recommendations, except recommendation 14, and planned corrective actions to resolve the deficiencies. In relation to recommendation 14, Goodman & Company, L.L.P. does not have a standard, firm-wide, non-profit management representation letter, and the auditors did not follow company guidance to obtain OMB Circular A-133 management representations. The complete text of the response is in Appendix F.

Evaluation of Management's Response. The actions planned by Goodman & Company, L.L.P. are responsive to the intent of the recommendations. We will review the Goodman & Company, L.L.P. guidance for management representation letters when we perform a follow-up review of the revised audit. The recommendations are resolved but will remain open until the agreed-to corrective actions are completed.

Continuing Education and Training

The Goodman and Company, L.L.P. auditors are not adequately trained in the revised requirements of OMB Circular A-133. The auditors received most of their training related to general government auditing and not to the revised Circular and its requirements. As a result, the Foundation audit was not planned, documented, and performed in accordance with the requirements of OMB Circular A-133.

Training Requirements. Generally accepted government auditing standards, sections 3.3 and 3.4, state that the audit organization is responsible for assigning audit staff who collectively possess adequate proficiency to conduct the audit. The staff should also have a thorough knowledge of government auditing and of the specific or unique environment in which the audited entity operates, relative to the nature of the audit being conducted. Section 3.6 further states that of the 80 hours of continuing education and training required every 2 years, at least 24 hours must be in subjects directly related to the government environment and to government auditing. Generally accepted government auditing standards also require additional training when the auditee operates in a unique or specific environment.

Due Care Requirements. Generally accepted government auditing standards section 3.26 requires the auditors to exercise due professional care when conducting the audit and preparing related reports. Sections 3.27 and 3.28 state that due care means observing generally accepted government auditing standards and using sound judgment to establish the scope, select the method, and choose tests and procedures for the audit. The same sound judgment should be applied in performing the tests and procedures and in evaluating and reporting the audit results.

Section 3.29 states that the auditors should use sound professional judgment to determine the standards applicable to the work to be conducted. The auditors should document the working papers for the standards that do not apply to the audit.

Auditor Education. Goodman & Company, L.L.P. auditors have not received adequate training related to the revised OMB Circular A-133 auditing and reporting requirements to adequately plan and supervise the audit. The Partner and Audit Manager received sufficient training related to general government auditing, but only 2 hours of the 24-hour requirement for government-related training are for the Circular and its requirements.

Conclusion. Because of the lack of training related to the OMB Circular A-133 auditing environment, the auditors did not adequately plan and perform the audit and obtain sufficient audit evidence. Overall, Goodman & Company, L.L.P. did not exercise due professional care over the audit. Therefore, the FY 1998 and possibly the FY 1999 Foundation audits were not performed in accordance with the auditing and reporting requirements of the June 24, 1997, revision of OMB Circular A-133.

Insufficient planning, evidence, and training makes this audit deficient. We will consider referring Goodman & Company, L.L.P. staff assigned to this audit to the Virginia Board for Accountancy and the American Institute of Certified Public Accountants (AICPA). Appendix E contains additional details on the possible referral.

Recommendations, Management's Response, Evaluation of Management's Response

We recommend that Goodman & Company, L.L.P.:

- 16. Provide additional training to the staff assigned to the OMB Circular A-133 audits specifically related to the Circular.**
- 17. Provide additional generally accepted government auditing standards and OMB Circular A-133 training to staff assigned to the Federal Government audits.**
- 18. Reperform the audit of Old Dominion University Research Foundation for its fiscal year ended June 30, 1998, in accordance with OMB Circular A-133 and at no additional cost to the Federal Government.**

Management's Response. Goodman & Company, L.L.P. concurred with the recommendations and planned actions to correct the deficiencies. The complete text of the response is in Appendix F.

Evaluation of Management's Response. The actions planned by Goodman & Company, L.L.P. are responsive to the intent of the recommendations. The recommendations are resolved but will remain open until the agreed-to corrective actions are completed.

Finding B. Schedule of Expenditures of Federal Awards Notes

The audit report on Old Dominion University Research Foundation does not include the associated notes for the Schedule of Federal Awards as required by OMB Circular A-133 §___.310(b)(4). The Circular requires Old Dominion University Research Foundation to prepare the Schedule and the associated notes. The notes describe the significant accounting policies used in preparing the Schedule. For example, the notes may also be used to describe the value of non-cash assistance Federal awards (for example, donated equipment) and loans outstanding at the fiscal year end. However, because the Schedule was incorrectly prepared by the Goodman & Company, L.L.P. auditors and did not include the related notes, Federal agencies do not know which accounting policies the Foundation used to prepare the Schedule. Disclosing this information assists the report user in determining the appropriate procedures for reconciling the report expenditures to the Federal records.

Recommendation, Management's Response, and Evaluation of Response

19. We recommend that the Board of Trustees, Old Dominion University Research Foundation, prepare the Schedule of Expenditures of Federal Awards to include notes to the Schedule as required by the OMB Circular A-133.

Management's Response. The Board of Trustees concurred with the recommendation. The Board will submit the notes to the Schedule of Expenditures of Federal Awards with the revised Goodman & Company, L.L.P. audit. The complete text of the response is in Appendix G.

Evaluation of Management's Response. The action planned by the Board of Trustees is responsive to the recommendation. The recommendation is resolved but will remain open until the agreed-to corrective actions are completed.

Finding C. Fiscal Year 1999 Audit

The fiscal year 1999 audit may include the same auditing and reporting deficiencies as those identified for fiscal year 1998. These deficiencies may exist because Goodman & Company, L.L.P. performed both years' audits. If the fiscal year 1999 audit is determined to be deficient, Federal agencies and others cannot rely on the Foundation's audit report to administer Federal awards and the costs associated with the audit are unallowable.

Audit Costs

Goodman & Company, L.L.P. may not have performed and reported on the fiscal year 1999 audit in accordance with the requirements of OMB Circular A-133. Fiscal year 1999 is the second year that Goodman & Company, L.L.P. performed an audit of Old Dominion University Research Foundation under the requirements of the revised Circular.

OMB Circular A-133 §__.230(b)(1) does not allow a non-Federal entity to charge the cost of any audit under the Single Audit Act Amendments of 1996 that was not conducted in accordance with the Circular. Goodman & Company, L.L.P. was paid to perform and report on the fiscal year 1999 audit in accordance with the requirements of the Circular. If the fiscal year 1999 audit was conducted in the same manner as the 1998 audit, the audit does not meet the requirements of OMB Circular A-133 and is unreliable for administering Federal awards. Therefore, any additional costs to correct the audit in order to meet those requirements must be accumulated separately and must not be charged to Federal awards. OMB Circular A-133 §__.300(e) states that the auditee is responsible for ensuring that the audit is performed in accordance with the requirements of the Circular.

Quality Control Review Results

As discussed previously, our review of the fiscal year 1998 audit working papers determined that the audit does not meet the requirements of OMB Circular A-133. The auditors did not adequately retain and document working papers related to determining major programs, classification of low-risk auditee, major program materiality, and the review of the Schedule of Expenditures of Federal Awards.

We also determined that the fiscal year 1998 internal controls review and compliance audit were inadequate and that the opinion on compliance is not supported by the working papers. Because the auditors also performed the 1999 audit, we concluded that the 1999 audit may have been conducted in the same manner as the 1998 audit and could include the same auditing deficiencies.

Conclusion

Federal agencies rely on an audit report's assurance that internal controls are effective for the major programs identified in the audit report. The agencies also rely on the reported opinion on compliance for each major program as appropriate based on an audit that is conducted in accordance with the procedures in the OMB Circular A-133 Compliance Supplement. If the Board of Trustees concludes that the fiscal year 1999 audit has the same auditing deficiencies as the fiscal year 1998 audit, Federal agencies and others cannot rely on the audit report to administer Federal awards. If the Board of Trustees determines that the fiscal year 1999 audit is deficient, the audit must be reformed at no additional cost to the Federal government.

Recommendation, Management's Response, and Evaluation of Response

20. We recommend that the Board of Trustees, Old Dominion University Research Foundation determine whether the fiscal year 1999 audit was performed in accordance with OMB Circular A-133, and if needed, require Goodman & Company, L.L.P. to reperform the audit, in accordance with OMB Circular A-133 and at no additional cost to the Federal Government.

Management's Response. The Board of Trustees concurred with the recommendation and planned actions to correct the deficiency. The complete text of the response is in Appendix G.

Evaluation of Management's Response. The action planned by the Board of Trustees is responsive to the recommendation. The recommendation is resolved but will remain open until the 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.

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

Appendix A

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. HHS is the cognizant audit agency for the Foundation. HHS granted the National Aeronautics and Space Administration (NASA), a Federal funding agency to the Foundation, permission to perform a review of the Goodman & Company, L.L.P. audit report of the Foundation's fiscal year ended June 30, 1998. 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) auditors' 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 standards²¹ and generally accepted auditing standards and whether the audit meets the auditing and reporting requirements of OMB Circular A-133. HHS is the cognizant audit agency for the Foundation. HHS granted the National Aeronautics and Space Administration (NASA), a Federal funding agency to the Foundation, permission to perform a quality control review of the Goodman & Company, L.L.P. audit of the Foundation's fiscal year ended June 30, 1998. We focused the review on the audit's qualitative aspects of:

- auditors' 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.

²¹These standards are broad statements of the auditors' responsibilities, promulgated by the Comptroller General of the United States.

Appendix B

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 November 15 and 16, 1999, at the Norfolk, Virginia, office of Goodman & Company, L.L.P. The NASA Office of Inspector General has not previously performed a quality control review at another Goodman & Company, L.L.P. location.

Peer Review Report

We reviewed the December 3, 1998, report on the most recent peer review of Goodman & Company, L.L.P., performed by Eubank & Betts. Eubank & Betts determined that Goodman & Company, L.L.P. met the objectives of the quality control review standards established by the American Institute of Certified Public Accountants and that Goodman & Company, L.L.P. complied with the standards during the fiscal year ended September 30, 1998.

Appendix C. Quality Control Review Methodology

Report of Independent Auditors

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 were unable to review the Schedule of Expenditures of Federal Awards. See Finding A for details.

Report of Independent Auditors 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.

Appendix C

Report of Independent Auditors on Compliance with Requirements Applicable to Each Major Program and 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 reviewed the working paper documentation and its support and the compliance tests performed. See Finding A for additional details regarding compliance.

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 were unable to review the audit programs for the appropriate procedures, the working paper documentation, and the test of controls performed. See Finding A for additional details regarding internal controls.

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. Major Program Expenditures Tested

<u>CFDA</u> ¹	<u>Federal Agency</u>	<u>Total Expenditures</u>	<u>Audited Expenditures</u>	<u>Percent of Total</u> ²	<u>Percent Tested</u> ³
47.041	National Science Foundation	\$268,476.02	\$18,241.80	6.30%	.13%
84.073	Department of Education	349,941.06	9,766.00	2.62%	.07%
84.066	Department of Energy	245,602.11	3,426.68	1.29%	.02%
N/A ⁴	National Aeronautics and Space Administration	341,519.73	3,613.50	.84%	.03%
93.359	Department of Health and Human Services	258,505.09	16,550.83	5.97%	.12%
47.068	National Science Foundation	200,306.78	49,322.07	19.26%	.35%
N/A	National Aeronautics and Space Administration	313,318.36	8,445.57	2.61%	.06%
81.049	Department of Energy	255,871.80	36,110.76	10.21%	.26%
N/A	National Aeronautics and Space Administration	208,448.83	15,814.31	6.08%	.11%
N/A	Department of Defense – Navy	200,280.98	221,926.52	92.12%	1.58%
11.300	Department of Commerce	461,617.16	74,741.66	16.02%	.53%
Direct Expenditures (33 transactions)		\$3,103,887.92	\$457,959.70	12.95%	3.26%
Indirect Expenditures		431,748.45	431,748.45	100.00%	3.08%
Subtotal		\$3,535,636.37	<u>\$889,708.15</u>	<u>25.16%</u>	<u>6.34%</u>
Expenditures Not Audited		9,882,768.32			
Unexplained Difference ⁵		619,670.31			
Schedule of Expenditures of Federal Awards		<u>\$14,038,075.00</u>			

¹Catalog of Federal Domestic Assistance.

²Percent of total is the total amount for the individual elements divided by the total Schedule of Expenditures of Federal Awards amount.

³Percent tested is the amount tested for the individual elements divided by the total expenditures for that element.

⁴Not applicable.

⁵Represents the amount between the preliminary and final Schedule of Expenditures of Federal Awards. The auditors used the preliminary Schedule to determine testing, but did not document a reconciliation of the difference between the preliminary and final Schedules.

Appendix E. Quality Control Review Referral

The President's Council on Integrity and Efficiency (PCIE) Position Statement 4, "IG [Inspector General] Quality Control Referral Procedures," describes the uniform Inspector General policies and procedures for making referrals and the uniform Inspector General referral package. According to the PCIE:

A referable action is when the audit report or underlying audit work have significant inadequacies which make the audit so pervasively deficient that users can not rely on it. The following are significant inadequacies.

1. The auditor is unqualified, i.e., not properly licensed as a CPA [Certified Public Accountant] or public accountant or not independent.
2. Working papers are sufficiently inadequate to preclude an assessment of the adequacy of the auditor's work on the study of internal controls or the testing of compliance requirements; the deficiency is pervasive rather than isolated.
3. A major component of the report is missing, e.g., financial statement(s), opinion, report on compliance, required supplemental schedule, etc.
4. The auditor fails to correct substandard work on a timely basis.
5. The auditor fails to review compliance with requirements.
6. The auditor fails to perform an appropriate evaluation of internal controls.
7. The auditor commits one or more other gross departures from GAGAS [generally accepted government auditing standards] which undermines the creditability of the audit. Some examples are:
 - lack of due professional care;
 - lack of sufficient evidential matter;
 - unjustified use of audit guide(s) not considered generally accepted; and
 - lack of site visits

Based on the results of our audit report review and quality control review, we determined that the Goodman & Company, L.L.P. audit work meets the PCIE definition of a referable action under its Position Statement 4. The underlying audit work has significant inadequacies that make the audit unreliable. The working papers are sufficiently inadequate to preclude an assessment of the adequacy of the auditors' work on the study of internal controls and the testing of compliance requirements. In addition, the auditors did not perform an appropriate evaluation of internal controls. Overall, the auditors did not exercise due professional care. Therefore, we will refer the staff assigned to the Old Dominion University Research Foundation audit to the Virginia Board for Accountancy and the AICPA.

Appendix F. Goodman & Company, L.L.P. Comments

GOODMAN & COMPANY, L.L.P.
Certified Public Accountants and Business Consultants

March 20, 2000

Mr. Russell A. Rau
Assistant Inspector General for Auditing
National Aeronautics and Space Administration
NASA Headquarters
300 E Street, S. W.
Washington, D.C. 20546-0001

Dear Mr. Rau:

I have reviewed your Draft Quality Control Review Report with regard to our audit of the Old Dominion University Research Foundation for the fiscal year ended June 30, 1998. I also asked some of our technical personnel familiar with government auditing standards and the requirements of OMB Circular A-133 to review our workpapers for this engagement and to focus on your auditor's comments regarding them. In that regard, I have been told that your auditor in general is correct. In addition, not all of our own internal quality control procedures were followed.

To correct this situation I have set in motion the following:

1. On April 25, 2000 we have retained Mr. William Broadus to conduct for us a special training session on Government Auditing Standards and OMB Circular A-133. Mr. Broadus is a well-known expert on governmental accounting. We have in 1996, and again in 1998, had Mr. Broadus present full day training sessions on Governmental Accounting Standards and OMB Circulars A-128 and A-133 to members of the firm involved in governmental accounting. This session will be mandatory for all members of the firm with current involvement in governmental audits.
2. Immediately following this session, we will coordinate with personnel from the Old Dominion University Research Foundation to re-perform the fiscal 1998 and 1999 audits of the Old Dominion University Research Foundation to ensure they are performed and documented in accordance with OMB Circular A-133. This re-performance will be led by Richard Pontynen, Senior Partner and Chair of our Governmental Committee and Carol White, Senior Manager, a former Manager with the Office of the Auditor of Public Accounts, Commonwealth of Virginia.
3. After completing the audits, coordinate with you, or your designated representative, to have those workpapers reviewed.

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Appendix F

Mr. Russell A. Rau
National Aeronautics and Space Administration
March 20, 2000
Page 2

Let me assure you that this audit is not the standard of quality that we look for. Federal and State auditors have reviewed other governmental engagements without finding the situation your auditor encountered. I believe this is an isolated incident, but intend for it not to reoccur. I believe the course of action outlined above, coupled with reinforcing our Internal Quality Review Procedures, is responsive to your findings. I have included as an attachment our responses to the eighteen specific recommendations made by your auditor. I believe you will find them satisfactory also.

Very truly yours,



Steven D. Womack
Managing Partner
Goodman & Company, LLP

Attachment

SDW/jal

Old Dominion University
Research Foundation (ODURF)
Fiscal Years Ended June 30, 1998 and 1999

1. Agreed, a documented understanding will be included as recommended.
2. Agreed, documentation will reflect the planning and performance of internal control testing.
3. Agreed, documentation will reflect the planning and performance of compliance testing to support our opinion.
4. We will re-emphasize the firms policy that all audit work papers must support the conclusions reached and be such that another experienced auditor will come to the same conclusions from those workpapers.
5. Agreed, to prevent a reoccurrence we will establish standard workpapers to document these areas that will become a mandatory part of our workpapers.
- 6 & 7. Agreed, documentation will reflect the planning and performance of our understanding of the internal control elements as they relate to the R & D compliance requirements for the major programs conducted by ODURF.
- 8 & 9. Agreed, testing of controls will be re-performed, and fully documented in accordance with applicable standards.
10. Agreed, documentation on our selection criteria methods and results for major program testing will be done.
- 11,12 & 13. Agreed, documentation will reflect the performance of compliance testing of major programs in accordance with OMB Circular A-133 to include attributes, procedures used and conclusion reached.
14. This statement is incorrect. We do not have a firm-wide standard non-profit management representation letter. In this instance, the audit team failed to follow previous guidance given regarding inclusions required to address OMB Circular A-133 issues in a management representation letter.
15. Agreed.
- 16,17 & 18. Agreed, scheduled firm-wide as noted in our basic correspondence.

Appendix G. Old Dominion University Research Foundation Comments



Old Dominion University Research Foundation

March 16, 2000

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

Re: Draft Report on Quality Control Review of Goodman & Company, L.L.P.
Audit of Old Dominion University Research Foundation for Fiscal Year
Ended June 30, 1998 (Assignment No. A0001400)

Dear Mr. Rau:

The Audit and Executive Committees of the Board of Trustees of Old Dominion University Research Foundation have read the referenced draft report and are very concerned by your findings. In selecting Goodman & Company, L.L.P. to provide audit services, we considered the capabilities and experience of each respondent as reflected in their submission to our request for proposal. Goodman & Company assured us of their professional abilities to provide these services in specific adherence to the requirements of A-133. Goodman & Company L.L.P. is a large regional accounting and auditing firm that has operated in good standing since 1932. They provided related references and have received clean review reports from various Federal agencies over the years. We found nothing that would have indicated problems in providing the audit services as required during our selection process.

Goodman and Company L.L.P. has made assurances to us that steps will be taken to correct any deficiencies resulting from the completion of your review process, after which, FY 1999 audit workpapers will be reviewed for the same issues with deficiencies corrected should any exist. We understand the importance of Federal agencies and others being able to rely upon our financial statements and reports of our Auditors and will continue to work to ensure that reliability. This action is meant to address Recommendation for Corrective Action #20 in your draft report.

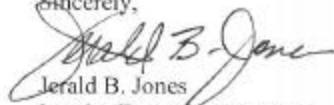
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Mr. Russell A. Rau
Page Two
March 16, 2000

Recommendation for Corrective Action #19 requested that we prepare the Schedule of Expenditures of Federal Awards to include notes to the Schedule as required by OMB Circular A-133. FY 1999 financial report included these required notes. We plan to reissue the FY 1998 financial report with these notes once Goodman & Company has completed its' corrective actions associated with these reports. We propose to wait until that time to correct the FY 1998 reports in order to reflect any other changes that may result from additional procedures performed by Goodman & Company.

We wish to reiterate that we are very concerned about the content of your report. We plan to follow up with Goodman & Company until these matters are concluded. Please keep us updated on the process. If we can be of assistance or if you have any questions, please contact me at (757) 683-4293 ext. 600.

Sincerely,


Jerald B. Jones
Interim Executive Director

cc: Ms. Nora Barnes, ODURF President
Mr. Page Johnson, Audit Committee Chair

Appendix H. Report Distribution

Audit Firms/Auditors

Mr. Donald H. Britt, Partner
Goodman & Company, L.L.P.
Post Office Box 3247
Norfolk, VA 23514

Audited Organization

Mr. Jerald B. Jones, Director of Finance
Old Dominion University Research Foundation
Post Office Box 6369
Norfolk, VA 23508-0369

Federal Offices of Inspector General

Department of Commerce
Department of Defense
Department of Education
Department of Energy
Department of Health and Human Services
National Science Foundation

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

AO/Chief Information Officer
B/Chief Financial Officer
B/Comptroller
BF/Director, Financial Management Division
G/General Counsel
H/Associate Administrator for Procurement
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NASA Assistant Inspector General for Auditing Reader Survey

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Report Title: Goodman & Company, L.L.P. Audit of Old Dominion University Research Foundation for Fiscal Year Ended June 30, 1998

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. _____

How did you use the report? _____

How could we improve our report? _____

How would you identify yourself? (Select one)

Congressional Staff	Media
NASA Employee	Public Interest
Private Citizen	Other: _____
Government: _____	Federal: _____ State: _____ Local: _____

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

Mailing Addresses

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Department of Education
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