

**QUALITY  
CONTROL  
REVIEW  
REPORT**

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**PRICEWATERHOUSECOOPERS LLP AUDIT OF  
DARTMOUTH COLLEGE FOR FISCAL YEAR  
ENDED JUNE 30, 1998**

**March 29, 2000**

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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
OIG	Office of Inspector General
OMB	Office of Management and Budget
PwC	PricewaterhouseCoopers LLP
R&D	Research and Development
SOP	Statement of Position

Office of Inspector General

March 29, 2000

Mr. Robert Spear, Partner  
PricewaterhouseCoopers LLP  
One International Place  
Boston, MA 02110

Re: Final Report on Quality Control Review of PricewaterhouseCoopers LLP Audit of  
Dartmouth College for Fiscal Year Ended June 30, 1998  
Assignment No. A0001800  
Report No. IG-00-026

Dear Mr. Spear:

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. Your comments on a draft of this report were responsive to the recommendations. Management's completed actions are sufficient to close the recommendation for reporting purposes.

If you have any questions concerning the report, 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 G 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 29, 2000

Mr. Edwin L. Johnson  
Acting Vice President and Treasurer  
Dartmouth College  
6008 Parkhurst Hall  
Hanover, NH 03755

Re: Final Report on Quality Control Review of PricewaterhouseCoopers LLP Audit of  
Dartmouth College for Fiscal Year Ended June 30, 1998  
Assignment No. A0001800  
Report No. IG-00-026

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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

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# NASA Office of Inspector General

IG-00-026  
A0001800

March 29, 2000

## Quality Control Review of PricewaterhouseCoopers LLP Audit of Dartmouth College for Fiscal Year Ended June 30, 1998

### Executive Summary

**Background.** Dartmouth College (Dartmouth) of Hanover, New Hampshire, is a private, nonprofit institution that combines features of an undergraduate liberal arts college with those of a research university.

The Department of Health and Human Services (HHS) is the cognizant audit agency for Dartmouth, and the National Aeronautics and Space Administration (NASA) is a Federal funding agency to Dartmouth. HHS granted the NASA Office of Inspector General (OIG) permission to perform a quality control review of the PricewaterhouseCoopers LLP (PwC) audit of the Dartmouth fiscal year ended June 30, 1998.<sup>1</sup> Office of Management and Budget (OMB) Circular A-133<sup>2</sup> requires the audit. Dartmouth reported total fiscal year Federal expenditures for NASA of \$1,096,185 and total expenditures of \$85,966,464.

Appendix A provides details on the single audit requirements.

**Objectives.** The objective of our report review was to determine whether the report Dartmouth submitted to the Federal Audit Clearinghouse<sup>3</sup> meets the applicable reporting standards and OMB Circular A-133 reporting requirements.

The objectives of our quality control review were to determine whether PwC conducted the financial statement and research and development major program 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.

**Results of Review.** PwC issued its audit report on Dartmouth on September 2, 1998. The PwC working papers for the audit contained deficiencies.

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<sup>1</sup>The Boston, Massachusetts, office of PwC performed the single audit for Dartmouth for the fiscal year ended June 30, 1998.

<sup>2</sup>Refer to Appendix A, which contains information regarding OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," audit requirements.

<sup>3</sup>The 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.



- **Reported A-133 Results.** PwC (1) identified no findings, (2) questioned no costs, and (3) issued an unqualified opinion<sup>4</sup> on the financial statements, Schedule of Expenditures of Federal Awards,<sup>5</sup> and major program compliance.<sup>6</sup> Also, the auditors found no instances of noncompliance in the financial statement audit that are required to be reported under generally accepted government auditing standards.<sup>7</sup> Finally, the auditors noted no matters involving internal controls (relating to the financial statement or major programs) that are considered to be material weaknesses.<sup>8</sup>
- **Report Quality Review Results.** The Dartmouth audit report meets the applicable reporting guidance and regulatory requirements contained in OMB Circular A-133.
- **Audit Quality Review Results.** The PwC 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 for the research and development major program. The auditors did not adequately oversee the internal auditor's work related to the research and development program internal controls. Also, the PwC working papers do not support a review of the Summary Schedule of Prior Audit Findings.<sup>9</sup> As a result, Federal agencies and others could not rely on the Dartmouth audit report without correction of these deficiencies to provide assurances that the internal controls were in place and functioning properly or that the status of prior audit findings were accurately represented. The deficiencies are detailed in Findings A and B.

**Recommendations.** We recommend that, for the Dartmouth College fiscal year ended June 30, 1998, and for future audits, the Dartmouth College internal auditors obtain and document their understanding of the 5 components of internal control for each of the 14 compliance requirements that are applicable and material to the research and development major program.

We recommend that for the Dartmouth College fiscal year ended June 30, 1998, and for future audits, the PwC:

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<sup>4</sup>An 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.

<sup>5</sup>The 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.

<sup>6</sup>Major 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.

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

<sup>8</sup>The American Institute of Certified Public Accountants (AICPA) SOP 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."

<sup>9</sup>Finding B discusses the Summary Schedule of Prior Audit Findings.

- Document the internal audit scope of work to ensure compliance with OMB Circular A-133 and generally accepted government auditing standards.
- Document the working papers to show that the internal auditor's work satisfies the OMB Circular A-133 audit objectives.
- Revise its audit scope to include reviewing and documenting its review and conclusions on the Summary Schedule of Prior Audit Findings.
- Review and document the review and conclusions of the Summary Schedule of Prior Audit Findings for the fiscal year 1998 and future audits.

**Dartmouth's Response.** Dartmouth did not state whether it concurred or nonconcurred with the recommendations. However, management did not concur with the conclusion that report users cannot rely on the internal auditors' review of internal controls. Dartmouth completed an internal control checklist that summarizes the various internal controls in place and provides references to the already existing working papers that support the auditors' review of internal controls. Management stated that the checklist duplicates the work that has already been performed. The complete text of the Dartmouth response is in Appendix D.

**PwC's Response.** PwC did not state whether it concurred or nonconcurred with the recommendations. However, PwC did not concur with the conclusions that its audit work does not meet the applicable auditing guidelines and requirements; that report users cannot rely on the report for assurance on internal controls, and that the Schedule of Prior Audit Findings is materially represented. PwC provided additional working papers that address the intent of the recommendations. The text of the PwC response is in Appendix E. The PwC working papers referenced in the response were too numerous to include in the appendix to this report.

**Evaluation of Management's Response.** The supplemental internal control checklist meets the intent of the recommendation. Therefore, we conclude that report users can rely on the internal auditors' review of internal controls. The recommendations are resolved and dispositioned.

The actions performed by PwC are responsive to all the recommendations. Therefore, the recommendations are resolved and dispositioned. As a result, the PwC audit work now meets the applicable auditing guidelines and requirements, and report users can rely on the report for assurance on internal controls and that the Schedule of Prior Audit Findings is materially represented.

Appendix F addresses management's concern regarding our conclusions on the audit work, internal controls, and the Schedule of Prior Audit Findings.

## **Introduction**

The Single Audit Act Amendments of 1996 (Public Law 104-156) and the June 24, 1997, revision to OMB Circular A-133, require that an auditee obtain an annual audit of its fiscal year 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.<sup>10</sup>

Appendix A contains additional details on the Single Audit requirements.

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<sup>10</sup>Appendix C describes the information contained in the Schedule of Findings and Questioned Costs.

## **Findings and Recommendations**

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### **Finding A. Oversight of Internal Auditors**

The Dartmouth College internal auditor's work supporting the review of internal controls for the research and development program does not meet the requirements of OMB Circular A-133 because PwC did not adequately oversee the internal auditor's work. Therefore, Federal agencies and other report users cannot depend on the report to provide assurance that internal controls are present and operating effectively to ensure compliance with program requirements.

**Documentation Requirements.** The American Institute of Certified Public Accountants (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.

**Audit Requirements.** OMB Circular A-133 §\_\_\_.500 requires the auditor to perform an audit of the entire organization in accordance with generally accepted government auditing standards. The audit scope includes the financial statements, internal controls, and compliance over Federal programs. In general, §\_\_\_500(c)(1) requires the auditor to perform procedures to obtain an understanding of internal controls over Federal programs that is sufficient to plan the audit for major programs. The AICPA Statement of Position (SOP) 98-3, "Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards," sections 8.7, 8.10, and 8.16, describe the auditors' responsibilities for planning the review of internal controls for major programs. The auditors must obtain a sufficient understanding of internal control over Federal programs by performing procedures to understand the design of the five internal control components (control environment; risk assessment; control activities; information and communication; and monitoring) related to the A-133 compliance requirements<sup>11</sup> for each major program. 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 controls and certain characteristics that when present and operating effectively, may ensure compliance with the program requirements.

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<sup>11</sup>Appendix A describes the compliance requirements.

**Internal Audit Oversight Requirements.** Internal auditors from non-profit organizations are specifically excluded from the OMB Circular A-133 definition of an auditor. Therefore, internal auditors may not issue OMB Circular A-133 reports. As a result, PwC must review and accept the internal auditor's work as its own. PwC must also issue the OMB Circular A-133 reports that are supported by the internal auditor's work. AICPA Codification of Statements on Auditing Standards §322.08 through .11 require auditors to assess the competency and objectivity of the internal auditors when the internal audit work may affect the nature, timing, and extent of the auditing procedures. Sections 322.23 through 322.26 require the auditor to evaluate, through testing, the quality and effectiveness of the internal auditor's work when the work is expected to affect the audit procedures. The auditor's evaluation should consider such factors as whether the internal audit scope will meet the objectives, adequacy of the audit programs, working paper documentation, and the conclusions reached. Section 322.27, "Using Internal Auditors to Provide Direct Assistance to the Auditor," states:

In performing the audit, the auditor may request direct assistance from the internal auditors. This direct assistance relates to work the auditor specifically requests the internal auditors to perform to complete some aspect of the auditor's work. For example, internal auditors may assist the auditor in obtaining an understanding of internal control or in performing tests of controls or substantive tests, consistent with the guidance about the auditor's responsibility .... When direct assistance is provided, the auditor should assess the internal auditors' competence and objectivity ... and supervise, review, evaluate, and test the work performed by internal auditors to extent appropriate in the circumstances. The auditor should inform the internal auditors of their responsibilities, the objectives of the procedures they are to perform, and matters that may affect the nature, timing, and extent of audit procedures, such as possible accounting and auditing issues. The auditor should also inform the internal auditors that all significant accounting and auditing issues identified during the audit should be brought to the auditor's attention. [Emphasis added]

**Internal Audit Work.** PwC assigned the audit of the research and development major program to the Dartmouth College internal auditors. The internal audit working papers documented their tests of internal controls and their audit of the compliance requirements. However, the working papers do not document that the internal auditors obtained and documented their understanding of the five components of internal control for each of the compliance requirements that are applicable and material to the research and development major program. The PwC Audit Manager explained that the internal auditors have performed the review for so many years that they understand the internal control environment at Dartmouth.

PwC did not adequately instruct the Dartmouth College internal audit department to review the research and development internal controls to ensure compliance with OMB Circular A-133 and generally accepted government auditing standards. PwC documented its working papers for the review of the internal audit function, the internal auditor's work, and PwC's testing of selected aspects of the internal auditor's work. However, the working papers do not document whether PwC compared the internal auditor's work to the OMB Circular A-133 audit objectives and whether the objectives were met. The PwC working papers also do not document that PwC instructed the internal auditors about the OMB Circular A-133 objectives that must be satisfied for the research and development audit.

**Conclusion.** The internal auditor's work relating to internal controls does not meet the OMB Circular A-133 requirements because PwC did not adequately instruct the Dartmouth College internal audit department as required by the AICPA Codification of Statements on Auditing Standards. As a result, the working papers are not documented to provide Federal agencies and other audit report users assurance that the auditing requirements have been met. Therefore, the report users cannot rely on the auditors' review of internal controls.

## **Recommendations, Management's Response, and Evaluation of Response**

**We recommend that for the Dartmouth College fiscal year ended June 30, 1998, and for future audits, the Dartmouth College internal auditors:**

- 1. Obtain an understanding of the five components of internal control for each of the compliance requirements that are applicable and material to the research and development major program as required by OMB Circular A-133.**
- 2. Document their understanding of the five components of internal control for each of the compliance requirements that are applicable and material to the research and development major program as required by generally accepted government auditing standards.**

**We recommend that for the Dartmouth College fiscal year ended June 30, 1998, and for future audits, PwC comply with the AICPA Codification of Statements on Auditing Standards to:**

- 3. Document the specific scope of work for the internal auditors to ensure that the work meets the objectives and audit requirements of OMB Circular A-133 and generally accepted government auditing standards.**
- 4. Document the working papers to show that the internal auditor's work was reviewed against the OMB Circular A-133 audit objectives to ensure the objectives were satisfied.**

**Dartmouth's Response.** Dartmouth did not state whether it concurred or nonconcurred with the recommendations. Management did not concur with the conclusion that report users cannot rely on the internal auditors' review of internal controls. Dartmouth College stated that its auditors have the requisite knowledge to assess controls for the various compliance requirements that the working papers reflect that the auditors performed a thorough assessment. The College acknowledges that the assessment was not evidenced in the precise form prescribed by the guidelines. Since the NASA OIG review, however, the College has completed an internal control checklist provided by PwC. The checklist provides a summary of the various internal controls in place, but it is only a composite of

references to working papers that are already in the A-133 file. The College will provide any information necessary to comply with regulations, but it would prefer not to duplicate its effort and provide the same material in two different forms. The complete text of the Dartmouth College response is in Appendix D.

**PwC Response.** PwC did not state whether it concurred or nonconcurred with the recommendations. PwC provided copies of several working papers to support a meeting with Dartmouth to discuss the scope of work assigned to the internal auditors and the PwC review of the internal auditors' work. PwC also provided additional working papers that specifically set forth the internal audit scope and provide a detailed explanation of the PwC evaluation of the internal auditors' work. The text of the PwC response is in Appendix E. The PwC working papers referenced in the response were too numerous to include in the appendix to this report.

**Evaluation of Management's Response.** The corrective actions performed by Dartmouth and PwC are responsive to the intent of the recommendations. The supplemental internal control checklist that Dartmouth prepared meets the intent of the recommendation. It is not necessary to duplicate the internal control audit effort; however, it is necessary that the working papers represent the work performed so that an experienced, outside reviewer may be able to determine whether the audit requirements have been met. We now conclude that Federal agencies and other users can rely on the audit report. The recommendations are resolved and dispositioned. We addressed other management comments related to this finding in Appendix F.

## **Finding B. Summary Schedule of Prior Audit Findings**

The PricewaterhouseCoopers LLP audit scope did not include a review of the Summary Schedule of Prior Audit Findings, and the working papers were not documented accordingly. Rather, PwC's practice is to review the Schedule as it processes the report for distribution to its client. The report processing procedures are not documented in the PwC working papers to support that the review was performed and, as required by generally accepted government auditing standards, to support the auditor's conclusions regarding the Schedule. As a result, Federal agencies and other users of the report cannot rely on the Schedule to support the auditors' conclusion that the Schedule materially represents the current status of prior audit findings.

**Review and Documentation Requirements.** OMB Circular A-133 §\_\_.315(a) requires the auditee to prepare a Summary Schedule of Prior Audit Findings to report the status of all Federal award findings from the prior audit report. Section \_\_.510(a)(7) requires the auditor to report as a current year finding the cases in which the Summary Schedule of Prior Audit Findings materially misrepresents the status of any prior audit finding.

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.

**Summary Schedule of Prior Audit Findings Review.** The PwC audit scope for Federal awards does not include reviewing the Summary Schedule of Prior Audit Findings that Dartmouth prepared to determine whether the Schedule is materially represented. The PwC Audit Manager explained that the review is performed as part of the audit report processing cycle. The processing cycle is the method in which the auditor summarizes the audit results into an audit report that is eventually signed and issued. The PwC report processing cycle is not documented in the working papers and, therefore, the processing cycle does not support a review of the Schedule. Also, the standardized PwC audit procedures do not include a review of the Schedule as part of the overall audit. Finally, although required by OMB Circular A-133, the working papers do not document that the auditor performed the review and do not document the auditor's conclusions of the review as required by generally accepted government auditing standards. Although there is no finding in the current PwC audit report stating the Summary Schedule of Prior Audit Findings is materially misrepresented, there is no support in the working papers for



Federal agencies and other report users to rely on the auditors' conclusion that the Schedule materially represents the status of prior audit findings. Therefore, Federal agencies and other report users cannot rely on the Schedule.

## **Recommendations, Management's Response, and Evaluation of Response**

**We recommend that for the Dartmouth College fiscal year ended June 30, 1998, and future audits, PwC:**

- 5. Revise its audit scope to require the auditors to:**
  - review the Summary Schedule of Prior Audit Findings, and**
  - document in the audit working papers the conclusion about whether the Schedule materially represents the status of prior audit findings.**
  
- 6. Perform a review the Summary Schedule of Prior Audit Findings and document its conclusions about whether the Schedule materially represents the status of prior audit findings.**

**Management's Response.** PwC did not state whether it concurred or nonconcurred with the recommendations. PwC provided copies of several working papers to support its discussion with Dartmouth management regarding the status of prior audit findings and procedures related to the PwC review and testing of the schedule. PwC also provided additional working papers that include the recommended documentation regarding its review of the Schedule. The text of the PwC response is in Appendix E. The PwC working papers referenced in the response were too numerous to include in the appendix to this report.

**Evaluation of Management's Response.** Management's corrective action is responsive to the intent of the recommendation. The recommendations are resolved and dispositioned. We addressed other PwC comments related to this finding in Appendix F.

## **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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### **Audit Report Review**

The objective of an audit report review was 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 Dartmouth, and NASA is a Federal funding agency to Dartmouth. HHS granted the NASA Office of Inspector General permission to perform a review of the PwC audit report of the Dartmouth'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 standards<sup>12</sup> and generally accepted auditing standards and whether the audit meets the auditing and reporting requirements of OMB Circular A-133. 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.

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

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<sup>12</sup>These standards are broad statements of the auditors' responsibilities, promulgated by the Comptroller General of the United States.

## **Appendix B**

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determining and auditing major program compliance and internal controls. We conducted the review December 13 through 15, 1999, at the Boston, Massachusetts, office of PwC. The NASA Office of Inspector General has performed a quality control review at one other PwC office and took no exception to the work performed.

### **Peer Review Reports**

In 1998 Coopers & Lybrand L.L.P. and Price Waterhouse LLP merged to form PwC. Before the merger, each firm had a peer review performed within the 3-year period required by generally accepted government auditing standards. We reviewed the Coopers & Lybrand L.L.P. and Price Waterhouse LLP peer review reports for PwC. We reviewed the October 28, 1997, Ernst & Young LLP peer review report on Coopers & Lybrand L.L.P. for the fiscal year ended March 31, 1997. We also reviewed the November 6, 1996, Deloitte & Touche LLP peer review report on Price Waterhouse LLP for the fiscal year ended June 30, 1996. Ernst & Young LLP and Deloitte & Touche LLP determined that Coopers & Lybrand L.L.P. and Price Waterhouse LLP, respectively, met the objectives of the quality control review standards established by the AICPA and complied with the standards during the fiscal year.

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

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### **Report of Independent Accountants on the Financial Statements of Dartmouth College and Schedule of Federal Award Expenditures**

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 of Independent Accountants on Compliance and 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

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### **Report of Independent Accountants 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 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.

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 and working paper documentation related to the auditor's understanding of internal controls. Finding A contains additional details regarding internal controls documentation.

#### **Audit 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.

#### **Status of Previously Reported Findings**

The auditee is required to prepare a Summary Schedule of Prior Audit Findings that reports the status of all audit findings from the prior audit's Schedule of Findings and Questioned Costs related to Federal awards. The auditor is required to review the Summary Schedule of Prior Audit Findings and report as a current year finding instances where the Summary Schedule of Prior Audit Findings materially misrepresents the status of any prior audit finding. We were unable to determine whether PwC reviewed the Summary Schedule of Prior Audit Findings because PwC did not document its working papers to support a review. Finding B contains additional details regarding the Schedule.



## Appendix D. Dartmouth College Response



Dartmouth College

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*Edwin L. Johnson*  
Vice President and Treasurer

March 17, 2000

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

Re: Response to Draft Report on Dartmouth College Quality Control Review, June 30, 1998  
(Assignment No. A0001800)

Dear Mr. Rau:

Before responding to the specific recommendations you have noted in your letter of February 18, 2000, I would like to provide some history of the A-133 work done by the College's Audit Department. The College auditors have been working with the external auditors to complete the research portion of the A-133 audit since A-133 audits were required of higher education institutions. One of the reasons Dartmouth College chose to assume this responsibility was so that we would have a comprehensive understanding of the internal controls within the various departments and address any weaknesses expeditiously. Our auditors have a thorough understanding of the five components of internal control. Beyond the internal control reviews done within a standard audit, they offer a workshop on these controls to the College community. Our mission at Dartmouth College is to comply with the guidelines required of institutions that receive federal dollars and our A-133 report reflects the effort that is made to achieve this objective.

Having said this my response to the findings in your letter follows:

### **Findings and Recommendations**

1. Dartmouth College internal auditors should obtain an understanding of the five components of internal control for each of the compliance requirements . . .
2. The working papers do not document the internal auditors understanding of these controls.

### **Response**

We believe our College auditors have the requisite knowledge to assess controls for the various compliance requirements and that our work papers reflect that they performed a thorough assessment. We do acknowledge that this wasn't evidenced in the precise form prescribed by your guidelines. Since your review, however, we have completed an internal controls checklist (available at your request) provided by PricewaterhouseCoopers. It provides a helpful summary of the various controls in place, but it is only a composite of references to papers that were already in the A-133 file. As previously stated we will provide any information necessary to comply with regulations, but we would prefer not to duplicate our effort and provide the same material in two different forms.

Consequently, we take exception to your conclusion that ". . . report users cannot rely on the auditors' review of internal controls." We believe that users should be informed that our A-133 report accurately reflects our control environment and that it can be relied upon. Therefore, we respectfully request that your report be amended to confirm that fact.

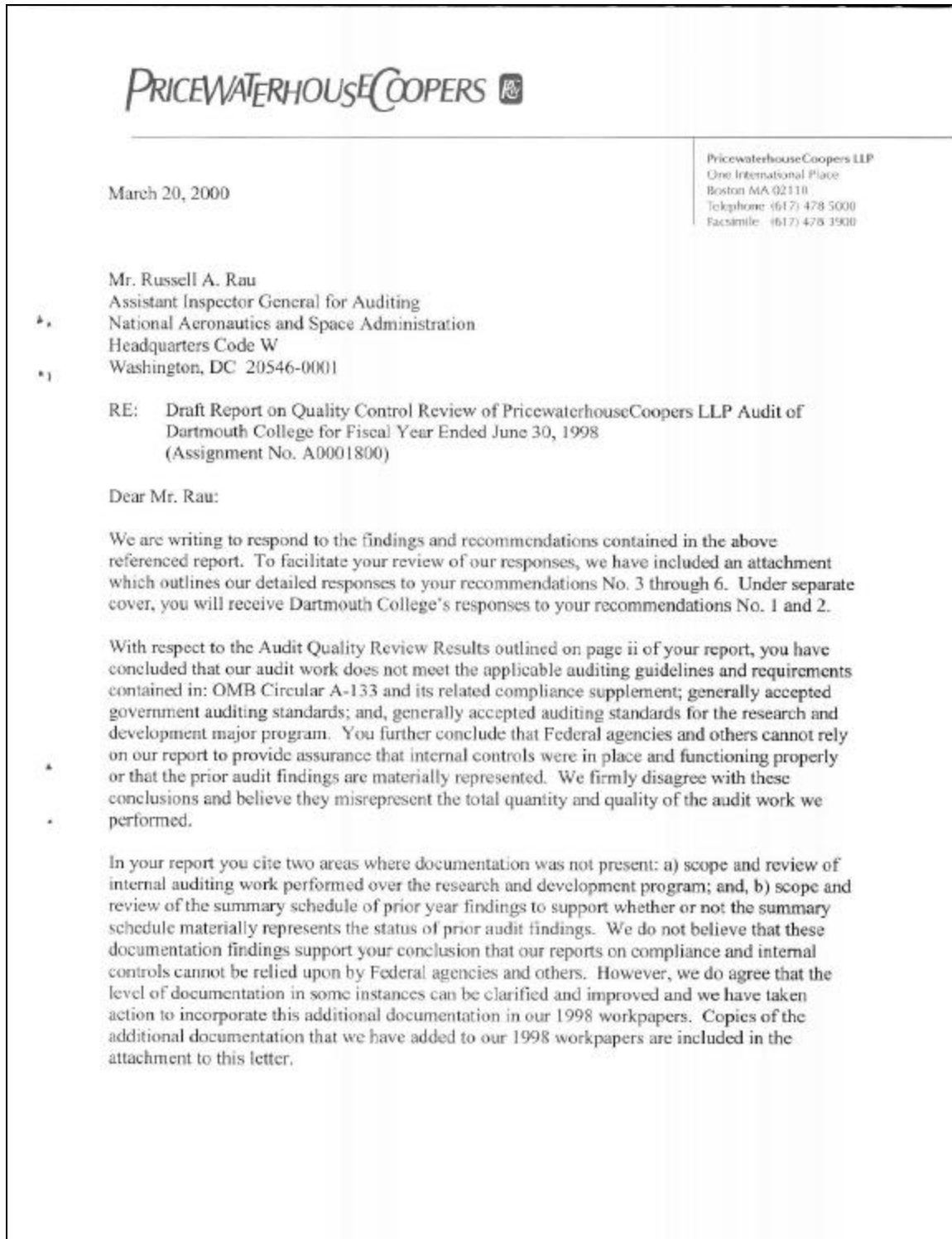
Sincerely,

Edwin L. Johnson

Recommendations  
1 and 2

See Appendix F,  
OIG Comment 1

## Appendix E. PricewaterhouseCoopers LLP Response



At our closing conference with Ms. Vera Garrant, as well as during a subsequent phone conversation with Ms. Garrant, we discussed each of her findings. We believed, based upon her comments, that your report would indicate that the appropriate auditing standards were met, but that there were some opportunities to improve documentation in some selected areas. We, along with representatives of Dartmouth College, were surprised to see such an adverse conclusion in your draft report.

We would be pleased to meet with you to further discuss these matters. You can reach me at (617) 478-5294.

Sincerely,

  
Robert J. Spear  
Partner

cc: Ms. Vera Garrant

Appendix E

Finding	NASA Recommendation	PwC Response
<p>1) Oversight of Internal Auditors</p>	<p>A.3-&gt; Document the specific scope of work for the internal auditors to ensure that the work meets the objectives and audit requirements of OMB Circular A-133 and generally accepted government auditing standards.</p> <p>A.4-&gt; Document the working papers to show that the internal auditor's work was reviewed against the OMB Circular A-133 audit objectives to ensure the objectives were satisfied.</p>	<p>In response to this finding, we would like to reference specific PwC workpapers which we believe adequately document the scope of work assigned to the internal auditors and PwC's review of internal auditor's work.</p> <ul style="list-style-type: none"> <li>• Documentation of scope meeting held between PwC and Dartmouth College (the "College") to discuss audit approach (Audit steps "Update understanding of Internal Audit relevant to the audit" and "Coordinate with the work of Internal Audit", Attachments A and B)</li> <li>• Documentation of review of IA's work addressing assigned areas of responsibility (Issue "Items noted during A-133 review", and audit step "Evaluate Internal Audit work", Attachments C and D)</li> </ul> <p>Although we believe the above referenced workpapers are adequate for purposes of the documentation standards of OMB Circular A-133 and AICPA Codification of Statements on Auditing Standards 339.05, based on your recommendations, we have completed additional recommended documentation. See Attachments G and H to this memo for additional documentation which has been added to the 1998 workpapers.</p>
<p>2) Summary Schedule of Prior Audit Findings</p>	<p>B.5-&gt; Revise its audit scope to require the auditors to:</p> <ul style="list-style-type: none"> <li>• review the Summary Schedule of Prior Audit Findings, and</li> <li>• document in the audit workpapers the conclusion about whether the Schedule materially represents the status of prior audit findings.</li> </ul> <p>B.6-&gt; Perform a review of the Summary of Prior Audit Findings and document its conclusions about whether the Schedule materially represents the status of prior audit findings.</p>	<p>In response to this finding, we would like to reference specific PwC workpapers and other documentation that we believe adequately document our review of the Summary Schedule of Prior Audit Findings.</p> <ul style="list-style-type: none"> <li>• Documentation of discussion with College management regarding status of prior year findings (Workpaper 8400-6.1, Attachment E). This attachment includes a linked reference to the applicable section in SOP 98-3, which discusses the required procedures relating to our review and testing of the Schedule.</li> <li>• The standard PwC audit program used for audits required under the regulations of OMB Circular A-133 includes a step to review the Summary schedule of prior audit findings and to document that review in the workpapers (Attachment F).</li> </ul> <p>Although we believe that the above referenced workpapers document our review for purposes of the documentation standards of OMB Circular A-133 and AICPA Codification of Statements on Auditing Standards 339.05, based on your recommendations, we have completed additional recommended documentation. See Attachment I to this memo for additional documentation which has been added to the 1998 workpapers.</p>

## Appendix F. OIG Comments on Management's Response

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Dartmouth College and PwC provided the following general comments in their responses to our draft report. Our responses to the comments are also presented.

**Dartmouth College Comment.** The College takes exception to the NASA OIG conclusion that report users cannot rely on the auditors' review of internal controls. Dartmouth stated that users should be informed that its A-133 report accurately reflects the Dartmouth internal control environment and that the report can be relied upon.

**1. OIG Comments.** At the time of our review, material deficiencies existed in the audit work. Only after our review were the identified deficiencies corrected. The Dartmouth comments and corrective action meet the intent of the recommendations. As a result, Federal agencies and other report users may rely on the Dartmouth internal control audit work.

**PwC Comment.** PwC firmly disagrees with the report conclusion that:

- the 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 for the research and development major program;
- Federal agencies and others cannot rely on the report to provide assurance that internal controls were in place and functioning properly or that the status of prior audit findings were accurately represented.

**2. OIG Comments.** The PwC responses to the report recommendations and the additional working papers that accompanied the responses meet the intent of the recommendations and correct the material deficiencies in compliance with audit requirements. As a result, the PwC audit work now meets the applicable auditing guidance and regulations and may be relied on by Federal agencies and other report users.

## **Appendix G. Report Distribution**

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### **Audit Firms/Auditors**

Mr. Robert Spear, Partner  
PricewaterhouseCoopers LLP  
One International Place  
Boston, MA 02110

### **Audited Organization**

Mr. Edwin L. Johnson  
Acting Vice President and Treasurer  
Dartmouth College  
6008 Parkhurst Hall  
Hanover, NH 03755

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

Department of Agriculture  
Department of Defense  
Department of Education  
Department of Energy  
Department of Health and Human Services  
Environmental Protection Agency  
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  
JM/Director, Management Assessment Division

### **NASA Center**

Director, Goddard Space Flight Center

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**Report Title:** PricewaterhouseCoopers LLP Audit of Dartmouth College 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.* \_\_\_\_\_

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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	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**

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Vera J. Garrant, A-133 Audit Manager

Tewana Hoskins, Program Assistant

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