

**QUALITY
CONTROL
REVIEW
REPORT**

**ERNST & YOUNG LLP AUDIT OF THE
BERNICE P. BISHOP MUSEUM FOR THE
FISCAL YEAR ENDED JUNE 30, 2000**

February 21, 2002



National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

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Acronyms

| | |
|------|---|
| FY | Fiscal Year |
| NASA | National Aeronautics and Space Administration |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| R&D | Research and Development |

February 21, 2002

Office of Inspector General

Mr. Larry Rodriguez, Partner
Ernst & Young LLP
2400 Pauahi Tower
1001 Bishop Street
Honolulu, HI 96813-3429

Re: Final Report on the Quality Control Review of Ernst & Young LLP Audit of the
Bernice P. Bishop Museum for the Fiscal Year Ended June 30, 2000
Assignment No. A-01-020-00
Report Number IG-02-008

Dear Mr. Rodriguez:

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

If you have questions concerning the report, please contact Mr. Chester A. Sipsock, Program Director, Financial Management Audits, Quality and Oversight, at (216) 433-8960; Ms. Vera J. Garrant, Program Manager, Audit Quality and Reporting Group, at (202) 358-2596; or Ms. Sandra L. Laccheo, Auditor-in-Charge, at (757) 864-3458. We appreciate the courtesies extended to the audit staff. The final report distribution is in Appendix E.

Cordially,

[original signed by Kevin Carson for]
Alan J. Lamoreaux
Assistant Inspector General for Audits

Enclosure

cc:

AI/Associate Deputy Administrator

AB/Associate Deputy Administrator for Institutions

B/Acting Chief Financial Officer

B/Comptroller

F/Assistant Administrator for Human Resources and Education

G/General Counsel

H/Assistant Administrator for Procurement

BF/Director, Financial Management Division

JM/Director, Management Assessment Division

GSFC/100/Director, Goddard Space Flight Center

Associate Inspector General for Audit, Office of
Inspector General, National Science Foundation

NASA Office of Inspector General

IG-02-008
A-01-020-00

February 21, 2002

Ernst & Young LLP Audit of the Bernice P. Bishop Museum for the Fiscal Year Ended June 30, 2000

Introduction

The Bernice P. Bishop Museum (the Museum) is a natural and cultural history institution in Hawaii recognized for its cultural collections, research projects, consulting services, and public education programs. The Museum was founded in 1889 to house Hawaiian artifacts and royal family heirlooms. For fiscal year (FY) 2000, the Museum reported total Federal expenditures of about \$3.9 million.

The National Aeronautics and Space Administration (NASA) is the oversight agency for audit¹ for the Museum. The NASA Office of Inspector General (OIG) performed a quality control review² of the Ernst & Young LLP (Ernst & Young) audit of the Museum for the fiscal year ended June 30, 2000.³ The Single Audit Act and the Single Audit Act Amendments of 1996⁴ require the audit. The NASA OIG reviewed three programs that Ernst & Young identified as major programs.⁵ A major program is a Federal program that the auditors determined through a risk analysis is subject to audit for the organization's current fiscal year.

Objectives

The objectives of our quality control review were to ensure that the audit report and related working papers met applicable standards and requirements.

¹ An oversight agency for audit is the Federal awarding agency that provides the predominant amount of direct funding when a recipient expends \$25 million or less annually in Federal awards. Of the total Federal expenditures of about \$3.9 million in FY 2000, the Museum reported NASA expenditures of about \$2.1 million.

² The National Science Foundation OIG participated with the NASA OIG in the quality control review. Appendix B provides the reason for the National Science Foundation's participation.

³ The Honolulu, Hawaii, office of Ernst & Young performed the single audit for the Museum for the fiscal year ended June 30, 2000. Appendix D discusses the results of the audit.

⁴ Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," implements the requirements of the Single Audit Act and the Single Audit Act Amendments. Appendix A contains details on the Circular and Single Audit requirements.

⁵ For FY 2000, Ernst & Young identified the NASA Exploration Program, the National Park Service Native Hawaiian Culture and Arts Program, and the Department of Energy Bishop Science Center Project as major programs.

Audit Report Review. The objectives of our report review were to determine whether the FY 2000 audit report the Museum submitted to the Federal Audit Clearinghouse⁶ met reporting standards in generally accepted government auditing standards⁷ and met reporting requirements in Office of Management and Budget (OMB) Circular A-133.⁸

Working Paper Review. The objectives of our working paper review were to determine whether Ernst & Young conducted the FY 2000 audit of the financial statements and major programs in accordance with generally accepted government auditing standards and whether the audit met the requirements in OMB Circular A-133 and its related Compliance Supplement.

Matching Compliance Requirement.⁹ We expanded our scope to determine whether Ernst & Young should have included the matching requirement for the basic NASA grant number NAG5-4577, Explorers Project,¹⁰ in its FY's 1997 through 1999 audits.

Appendix B provides details on the objectives and scope. Appendix C provides our quality control review methodology.

Results of Review

Audit Report Review. The audit report the Museum submitted to the Federal Audit Clearinghouse for the fiscal year ended June 30, 2000, met the applicable reporting standards and the applicable OMB Circular A-133 reporting requirements.

Working Paper Review. The Ernst & Young FY 2000 audit met the applicable standards and the applicable requirements in OMB Circular A-133 and its related Compliance Supplement.

⁶ The Single Audit Act Amendments of 1996, §7504(c), required the Office of Management and Budget to establish the Federal Audit Clearinghouse to receive the Circular A-133 audit reports.

⁷ These standards, promulgated by the Comptroller General of the United States, are broad statements of the independent auditors' responsibilities and incorporate the standards promulgated by the American Institute of Certified Public Accountants. The standards deal with the quality of the audit and are divided into three groups: (1) general standards, (2) field work standards, and (3) reporting standards.

⁸ See footnote number 4.

⁹ This requirement is 1 of 14 compliance requirements that the Federal Government expects auditors to consider as part of an audit required by the Single Audit Act and OMB Circular A-133. When matching, also referred to as cost sharing, is a requirement, grantees must contribute a specified amount or percentage to match the Federal awards. In some cases, Federal agencies allow nonmonetary matching. The matching requirement relates to cost sharing as discussed in NASA Procedures and Guidelines 5800.1D, "Grant and Cooperative Agreement Handbook." Appendix A lists the 14 compliance requirements.

¹⁰ The basic grant for the Explorers Project was in effect at the Museum in FY's 1997 through 1999. The Explorers Project is a component of NASA's Exploration Program. NASA created the Exploration Program to establish an interdisciplinary, informal science education program to complement the Nation's formal school curricula. The products developed by the Exploration Program are intended to heighten interest and involvement in science, technology, and space programs.

Matching Compliance Requirement. In performing its audits of the matching requirement for FY's 1997 through 1999, Ernst & Young's audit scope did not include the basic NASA grant number NAG5-4577. After we discussed our review results with Ernst & Young, the firm performed an audit of the matching expenditures on the NASA grant and determined that the Museum contributed more than its required share.

Matching Requirement Not Audited in Prior Years

In the FY's 1997 through 1999 audits, Ernst & Young did not include NASA grant number NAG5-4577, Explorers Project, in the audits of the matching requirement because the auditors relied on oral evidence from the Museum that the grant did not require matching. By excluding the Explorers Project, NASA had no assurance that the Museum complied with the grant requirement to provide matching funds of \$250,111. Further, the auditors' opinions on compliance may have been misleading for the years the basic NASA grant was active.¹¹ After we completed our quality control review, the Ernst & Young auditors performed the audit of the matching expenditures on the NASA grant and determined that the Museum had provided the required matching funds. Therefore, report users can now rely on the Ernst & Young compliance opinions for FY's 1997 through 1999.

Requirements for Matching

NASA Requirements. NASA Procedures and Guidelines 5800.1D, "Grant and Cooperative Agreement Handbook," July 23, 1996,¹² states that NASA may accept cost sharing when voluntarily offered by grantees. When a grantee voluntarily offers cost sharing, the grant officer¹³ should insert clause §1260.54, "Cost Sharing," into the award document to recognize that cost sharing is applicable. When the grant officer includes the cost-sharing clause in the grant document, the grantee is required to provide matching funds.

NASA awarded grant number NAG5-4577 to the Museum on May 1, 1997, for about \$1 million. The Museum proposed that it would match funds on the project. Therefore, the grant officer incorporated the cost-sharing clause into the grant document, as required. The clause included the requirement that "the dollar value of the recipient's cash and/or non-cash contribution will be made on a 80.0 percent NASA; 20.0 percent recipient basis."

OMB Audit Requirements. OMB Circular A-133 Compliance Supplement, Parts 3 and 6, provide auditors guidance on auditing compliance with and reviewing internal

¹¹ The basic grant was active from May 1, 1997, through November 30, 1998.

¹² The July 23, 1996, version of the Grant Handbook was in effect when NAG5-4577 was awarded.

¹³ The grant officer is a Government employee who is delegated the authority to negotiate, award, and administer grants. For example, the grant officer selects the appropriate award instrument, obligates NASA funding, and ensures compliance with Federal and NASA regulations.

controls for the matching requirement.¹⁴ The auditors must satisfy the objectives in the Supplement to determine compliance and may use the suggested audit procedures and internal control characteristics to satisfy those objectives. To meet the compliance objective for the matching requirement, the Supplement states that auditors must determine whether the auditee provided the minimum amount or percentage of contributions for matching funds. To meet the internal control objectives for the matching requirement, the auditors must determine whether the organization's internal control system provided reasonable assurance that the organization met the matching requirement using only allowable funds or costs that were properly calculated and valued.

Matching Audit Scope Excluded the NASA Explorers Project

The Ernst & Young auditors had obtained a copy of NASA grant number NAG5-4577, Explorers Project, which was included in one of the major programs. The grant document in the auditors' working papers included the cost-sharing clause from the NASA Grant Handbook and the requirement for the Museum to match 20 percent of the grant expenditures. For the FY's 1997 through 1999 audits, the auditors asked the Museum's principal investigator¹⁵ about the applicability of the matching requirement on the Explorers Project. The principal investigator responded that matching was not applicable because the NASA technical officer¹⁶ stated that matching was not a program requirement.

Although the auditors had documentation indicating that matching was required on the NASA grant, the auditors relied on the principal investigator's statements that matching was not required. For FY's 1997 through 1999, the auditors included the Explorers Project in the cluster¹⁷ of research and development (R&D) awards rather than auditing the Project as a separate major program. For these 3 fiscal years, the auditors performed an audit of the R&D awards that contained matching expenditures. However, the auditors excluded the matching expenditures on the Explorers Project.

NASA OIG Estimation of Materiality

Museum representatives could not provide us information about whether the Museum had provided matching funds on the NASA grant. Therefore, to evaluate the impact of excluding the matching expenditures on the Explorers Project from the FY's 1997 through 1999 audits, we assumed that the Museum matched proportionately to the annual

¹⁴ See footnote number 9.

¹⁵ The principal investigator is responsible for the quality and direction of the proposed research and for the proper use of awarded funds.

¹⁶ The technical officer is a Government employee who is responsible for monitoring the technical aspects of the work under a grant. For example, the technical officer evaluates proposals for technical content and applicability to NASA's missions, recommends award selection to the grant officer, reviews progress on the grant, and accepts the final product.

¹⁷ A cluster of programs is a grouping of closely related programs that share common compliance requirements. A cluster is considered as one program for determining major programs. Research and development is a cluster.

NASA expenditures. Also, we estimated whether the matching expenditures on the grant were material in relation to the annual R&D expenditures for each year the grant was in effect. Our calculations are shown below:

| Estimated Annual Matching Requirement on Basic Grant NAG5-4577 as a Percentage of Total Major Program Expenditures | | | | |
|---|-------------|-------------|-------------|--------------|
| | 1997 | 1998 | 1999 | Total |
| NASA grant expenditures (A) ¹ | \$ 11,684 | \$ 427,372 | \$ 561,387 | \$1,000,443 |
| Other R&D major program expenditures (B) ² | 2,264,649 | 2,104,406 | 1,793,860 | 6,162,915 |
| Total R&D program expenditures (A+B) = (C) | 2,276,333 | 2,531,778 | 2,355,247 | 7,163,358 |
| Annual matching requirement (D) ³ | 2,921 | 106,843 | 140,347 | 250,111 |
| Percentage of NAG5-4577 matching expenditures to total major program expenditures (D/C) | 0.1% | 4.2% | 6.0% | 3.5% |

¹ We obtained the annual NASA grant expenditures from the “Data Collection Form for Reporting on Audits of States, Local Governments, and Non-profit Organizations,” which is available through the Federal Audit Clearinghouse (see footnote number 6).

² We obtained the other annual R&D major program expenditures from the FY’s 1997 through 1999 OMB Circular A-133 audit reports.

³ The grant document did not contain the dollar amount of the Museum’s contributions to the grant. Therefore, we calculated the Museum’s annual matching requirement based on the annual NASA grant expenditures and the cost-sharing ratio in the grant document. To determine total annual grant expenditures, we divided each of the annual NASA grant expenditures by 80 percent, which is the percentage of funds that NASA provided. To calculate the Museum’s annual matching requirement, we subtracted the NASA grant expenditures from the total grant expenditures. The Museum was required to contribute 20 percent, or a total of \$250,111 on basic grant number NAG5-4577.

Our estimates showed that in FY’s 1997 and 1998 the matching requirements for the Explorers Project were less than 5 percent of R&D expenditures. In our opinion, the matching percentages were immaterial in those years. Therefore, for those years, the auditors’ conclusions and compliance opinions would probably not be affected.

However, for FY 1999, our estimate showed that the matching requirement (\$140,347) was about 6 percent of the total R&D expenditures (\$2,355,247), which, in our opinion, is a significant percentage of matching funds. Although the auditors should have included the matching expenditures for the Explorers Project in the audit each year, for the FY 1999 audit, the exclusion of the expenditures could impact the auditors’ conclusions about compliance and the reported opinion on compliance for the R&D program cluster.

As stated earlier, our analysis was based on the assumption that the Museum matched funds throughout the life of the grant in proportion to the annual NASA expenditures. However, the Museum may have provided the matching funds at any time and in any

proportion to meet the grant requirement. Therefore, the auditors should obtain the annual matching expenditures for the Explorers Project from the Museum and add them to all other matching expenditures in the R&D program cluster to determine whether additional audit work is required for their audits of FY's 1997 through 1999.

Effect on Report Reliance

NASA and other report users rely on the OMB Circular A-133 audit reports to monitor and administer Federal awards. They also rely on the auditors to support the compliance opinion in the report. By excluding the matching requirement for NASA grant number NAG5-4577, Explorers Project, from the matching audit scope in the prior-year audits, NASA had no assurance that the Museum met the provisions of the grant agreement by providing \$250,111 of matching funds. In addition, the reported opinions on compliance may have been misleading because a material amount of expenditures were not audited.

After our review, we planned to recommend that Ernst & Young:

- determine, at no additional cost to the Government, whether the Museum met the matching requirement for the basic portion of NASA grant number NAG5-4577; and
- reconsider whether the compliance requirement for matching of funds would materially affect the compliance opinions in FY's 1997 through 1999 if the auditors conclude the Museum had not matched the funds.

However, the auditors completed corrective action for the audit after our quality control review, and we consider the actions to be sufficient. The auditors determined that in FY 1999, the Museum obtained contributions that exceeded its required share of matching funds and that the auditors' FY's 1997 through 1999 compliance opinions were not affected.

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 Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," 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.

Appendix A

The auditee must also submit a data collection form to the Federal Audit 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 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. The Supplement “provides a source of information for auditors to understand the Federal program’s objectives, procedures, and compliance requirements relevant to the audit as well as audit objectives and suggested audit procedures for determining compliance with the requirements.”

For single audits, the Supplement replaces agency audit guides and other audit requirement documents for individual Federal programs and specifically states which of the following 14 compliance requirements are applicable to a major program that may be audited:

1. Activities Allowed or Unallowed
2. Allowable Costs/Cost Principles
3. Cash Management
4. Davis-Bacon Act
5. Eligibility
6. Equipment and Real Property Management
7. Matching, Level of Effort, Earmarking
8. Period of Availability of Federal Funds
9. Procurement and Suspension and Debarment
10. Program Income

11. Real Property Acquisition/Relocation Assistance
12. Reporting
13. Subrecipient Monitoring
14. Special Tests and Provisions

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

Appendix B. Objectives and Scope

Audit Report Review

Our objectives for the audit report review were to determine whether the report submitted by the auditee met reporting standards in generally accepted government auditing standards¹⁸ and met reporting requirements in Office of Management and Budget (OMB) Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations.” As the Federal oversight agency for audit for the Bernice P. Bishop Museum (the Museum), we performed a review of the audit report on the Museum for its fiscal year ended June 30, 2000. 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 the (1) financial statement, compliance, and internal control reporting; (2) Schedule of Expenditures of Federal Awards; and (3) Schedule of Findings and Questioned Costs.¹⁹

Working Paper Review

Our objectives for the working paper review were to determine whether the audit was conducted in accordance with generally accepted government auditing standards and whether the audit met the requirements of OMB Circular A-133 and its related Compliance Supplement. As the Federal oversight agency for audit for the Museum, the NASA Office of Inspector General (OIG) conducted a quality control review of the Ernst & Young LLP (Ernst & Young) audit working papers. The National Science Foundation OIG participated with the NASA OIG in the review of the NASA Exploration Program.²⁰ The NASA OIG reviewed the National Park Service Native Hawaiian Culture and Arts Program and the Department of Energy Bishop Science Center Project.²¹ We focused the review on the audit’s qualitative aspects of:

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

¹⁸ See footnote number 7.

¹⁹ Appendix C describes the information in the Schedule of Findings and Questioned Costs.

²⁰ The National Science Foundation OIG participated with the NASA OIG in the quality control review because the National Science Foundation was scheduled to audit the Museum’s indirect cost rates. The National Science Foundation is the cognizant Federal agency for establishing the indirect cost rates for the Museum. Indirect costs are those costs that benefit more than one activity and cannot be readily assigned to a specific project. They include costs such as general and administration expenses and depreciation and use allowances.

²¹ The Museum reported direct Federal expenditures of \$716,032 for the National Park Service and \$540,236 for the Department of Energy.

- Federal receivables and payables,
- major program determination, and
- internal controls and compliance testing for major programs.

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

- Schedule of Expenditures of Federal Awards,
- Schedule of Findings and Questioned Costs, and
- data collection form.

Finally, we expanded the scope of our review to include the Ernst & Young audit of the compliance requirement related to matching funds²² for fiscal years (FY's) 1997 through 1999 on the basic grant for NASA grant number NAG5-4577. This resulted from questions we had regarding the matching requirement during our review of the FY 2000 audit. We discussed the applicability of the matching requirement with the NASA technical and grant officers.

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 April 9-12, 2001, at the Honolulu, Hawaii, office of Ernst & Young. The NASA OIG had previously performed quality control reviews at other Ernst & Young locations.

Peer Review Report

To determine whether there were any issues that we needed to be aware of during our report and working paper review, we assessed the November 3, 1998, report on the most recent peer review of Ernst & Young performed by KPMG Peat Marwick LLP. The KPMG Peat Marwick LLP review determined that Ernst & Young met the objectives of the quality control review standards established by the American Institute of Certified Public Accountants and that Ernst & Young complied with the standards during the fiscal year ended June 30, 1998.

²² See footnote number 9.

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 accounting principles and are free of material misstatement. The auditors are also required to subject the Schedule of Expenditures of Federal Awards²³ 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 Ernst & Young LLP (Ernst & Young) audit program 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 program for the appropriate procedures and traced some of the amounts to the Subsidiary Ledger and/or Trial Balance.

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements 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 Ernst & Young audit program for the appropriate procedures, working paper documentation, and compliance and substantive testing performed.

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

The auditors are required to determine whether the recipient has complied with laws, regulations, and the provisions of contracts and grant agreements that may have a direct and material effect on each of its major programs.²⁴ The auditors are required to use the procedures in the Office of Management and Budget Circular A-133 Compliance

²³ The Schedule of Expenditures of Federal Awards shows the amount of annual Federal award expenditures by Federal agency for each program, contract, or grant.

²⁴ A major program is a Federal program that the auditors determined through a risk analysis is subject to audit for the organization's current fiscal year.

Supplement to determine the compliance requirements for each major program. We reviewed the audit program for the appropriate procedures and compared the audit program steps to those in the Compliance Supplement to determine whether the applicable steps had been performed. We also reviewed the working paper documentation and the compliance tests performed.

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

Schedule of Findings and Questioned Costs

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

Appendix D. Results of the Ernst & Young LLP Audit of the Bernice P. Bishop Museum for the Fiscal Year Ended June 30, 2000

On March 21, 2001, Ernst & Young LLP issued the audit report for the Bernice P. Bishop Museum (Museum) for the fiscal year ended June 30, 2000. The auditors issued an unqualified opinion²⁵ on the financial statements; Schedule of Expenditures of Federal Awards;²⁶ and 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. The auditors also found no instances of noncompliance in the financial statement audit that must be reported under generally accepted government auditing standards.²⁷ Further, the auditors identified no material weaknesses²⁸ related to internal controls for the financial statements or major programs.

Finally, the auditors identified no internal control findings but questioned \$208,146 related to the Department of Energy Bishop Science Center Project. The Museum incorrectly used Federal funds to purchase a projector that was unrelated to the Bishop Science Center Project and was being used in the Museum's planetarium. The Museum adjusted its subsequent quarterly report to the Department of Energy to return the funds and correct the error.

²⁵ 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 and grant provisions that could have a direct and material effect on each major program.

²⁶ See footnote number 23.

²⁷ See footnote number 7.

²⁸ The American Institute of Certified Public Accountants Statement of Position 98-3, Appendix D, defines a material weakness as:

... a 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.

Appendix E. Report Distribution

Audit Firm

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Audited Organization

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Bernice P. Bishop Museum
1525 Bernice Street
Honolulu, HI 96817

Federal Offices of Inspector General

Department of Agriculture
Department of Commerce
Department of Defense
Department of Energy
Department of the Interior
National Foundation on the Humanities
National Science Foundation

Other

Office of Management and Budget, Office of Federal Financial Management
Office of Naval Research

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

A/Administrator
AI/Associate Deputy Administrator
AB/Associate Deputy Administrator for Institutions
B/Acting Chief Financial Officer
B/Comptroller
BF/Director, Financial Management Division
F/Assistant Administrator for Human Resources and Education
G/General Counsel

Appendix E

NASA Officials-in-Charge (Cont.)

H/Assistant Administrator for Procurement
L/Assistant Administrator for Legislative Affairs
Y/Associate Administrator for Earth Science
JM/Director, Management Assessment Division

NASA Centers

Director, Goddard Space Flight Center

NASA Assistant Inspector General for Audits Reader Survey

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

Report Title: Quality Control Review of the Ernst & Young LLP Audit of the Bernice P. Bishop Museum for the Fiscal Year Ended June 30, 2000 (Assignment No. A-01-020-00)

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

Circle the appropriate rating for the following statements.

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

Overall, how would you rate the report?

- Excellent Fair
 Very Good Poor
 Good

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

How did you use the report? _____

How could we improve our report? _____

How would you identify yourself? (Select one)

- | | |
|---|--|
| <input type="checkbox"/> Congressional Staff | <input type="checkbox"/> Media |
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| <input type="checkbox"/> Government: _____ Federal: _____ State: _____ Local: _____ | |

May we contact you about your comments?

Yes: _____ **No:** _____

Name: _____

Telephone: _____

Thank you for your cooperation in completing this survey.

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