

SEPTEMBER 2, 2008

QUALITY CONTROL REVIEW REPORT

OFFICE OF AUDITS

QUALITY CONTROL REVIEW OF
PRICewaterhouseCOOPERS, LLP, OFFICE OF
MANAGEMENT AND BUDGET CIRCULAR A-133 AUDIT
OF THE UNIVERSITY OF ALABAMA IN HUNTSVILLE FOR
THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

OFFICE OF INSPECTOR GENERAL



National Aeronautics and
Space Administration

Acronyms

AICPA	American Institute of Certified Public Accountants
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
OIG	Office of Inspector General
OMB	Office of Management and Budget
PwC	PricewaterhouseCoopers, LLP
SEC	Securities and Exchange Commission
UAH	The University of Alabama in Huntsville

National Aeronautics and
Space Administration

Office of Inspector General
Washington, DC 20546-0001



September 2, 2008

Mr. Michael W. Lammons, Partner
PricewaterhouseCoopers, LLP

Mr. Ray M. Pinner, Vice President for Finance and Administration
The University of Alabama in Huntsville

Mr. Robert C. Leonard, Controller
The University of Alabama in Huntsville

SUBJECT: Quality Control Review of PricewaterhouseCoopers, LLP, Office of Management and Budget Circular A-133 Audit of The University of Alabama in Huntsville for the Fiscal Year Ended September 30, 2006 (Report No. IG-08-026; Assignment No. A-08-015-00)

The audit firm PricewaterhouseCoopers, LLP (PwC), located in Birmingham, Alabama, performed a single audit of The University of Alabama in Huntsville (UAH) for the fiscal year ended September 30, 2006 (FY 2006). Office of Management and Budget (OMB) Circular No. A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires these audits.

Background. UAH is a public research university that offers 62 degree-granting programs, including 35 bachelor's degree programs, 17 master's degree programs, and 10 Ph.D. programs through five colleges: Administrative Science, Liberal Arts, Engineering, Nursing, and Science. UAH is an autonomous campus within The University of Alabama System.

UAH received \$94.3 million for externally funded projects during FY 2006. Sponsors of the research included Federal and State agencies, academic institutions, industry, and private foundations. Research is conducted within the individual colleges and throughout UAH's 19 independent research centers, laboratories, and institutes. Major interdisciplinary research thrusts included optics, propulsion, space physics and astrophysics, earth system science, information technology, microgravity and materials, modeling and simulation, biotechnology, and systems engineering.

Quality Control Review Objectives. As the cognizant audit agency for UAH, the NASA Office of Inspector General (OIG) performed a quality control review of the PwC audit of UAH for FY 2006. The objectives of our quality control review were to determine whether PwC had conducted the audit in accordance with the Government

Accountability Office's "Government Auditing Standards, 2003 Revision" (often referred to as generally accepted government auditing standards, or GAGAS) and the auditing and reporting requirements of OMB Circular A-133 and its related Compliance Supplement (the Supplement). OMB issued the Supplement to assist auditors in meeting the requirements of OMB Circular A-133. See Enclosure 1 for details of the scope and methodology of our review, requirements for single audits, and the latest peer review of PwC. See Enclosure 2 for the results of the PwC audit of UAH for FY 2006.

Review Results. PwC's audit work substantially met GAGAS and the auditing and reporting requirements of OMB Circular A-133. However, we noted one exception related to the GAGAS reporting standards for financial audits in that PwC failed to include references required by GAGAS (Finding A). In addition, the Data Collection Form filed with the Federal Audit Clearinghouse was not consistent with the PwC's audit report and Schedule of Findings and Questioned Costs (Finding B).

Management Comments. In response to a draft of this report, PwC concurred with our findings and recommendations and described actions to be taken (see Enclosure 3 for the full text of management comments). We consider the comments responsive and have closed the recommendations.

Finding A

Failed to Include Required References. The single audit reporting package filed with the Federal Audit Clearinghouse did not include references required by GAGAS. The report failed to include a statement in the Independent Auditor's Report that the audit was performed in accordance with GAGAS and a reference to a separate report on internal control and compliance and other matters as required under GAGAS. GAGAS, section 5.05, states, "Audit reports should state that the audit was performed in accordance with GAGAS." GAGAS, section 5.08, further states that a description of the scope and the results of the auditor's testing on internal control over financial reporting and compliance should be included in the audit report or a reference to a separate report should be provided. A reader of the Independent Auditor's Report on the financial statements would be unable to conclude whether the audit work complied with GAGAS or whether PwC considered UAH's internal control over financial reporting and tested compliance with certain provisions of laws, regulations, and other matters.

Recommendation 1. We recommended that PwC ensure future audit reports resulting from engagements performed in accordance with GAGAS contain the required references and are filed with the Federal Audit Clearinghouse.

Management's Response. PwC concurred, stating that it had issued two versions of the audit report, one with GAGAS references as required and one without for the University. The version of the report that was without the GAGAS references was inadvertently filed with the Federal Audit

Clearinghouse. PwC stated that it would work with the University to file the correct report and ensure that future reports filed with the Federal Audit Clearinghouse contain the GAGAS references.

Evaluation of Management's Response. Management's planned corrective action is responsive to the intent of our recommendation. We consider the recommendation closed.

Finding B

Classifications of Opinions and Findings Were Reported Incorrectly on the Data Collection Form. There were discrepancies in how four grants were reported in the Data Collection Form when compared to PwC's report on major program compliance and internal control. The PwC audit report classified four grants as having an unqualified opinion on compliance with requirements applicable to each major program but were reported as having an adverse opinion on the Data Collection Form. All four of the grants were also referenced to the incorrect finding in the Schedule of Findings and Questioned Costs. These grants were referenced to a finding for research and development programs on the Data Collection Form. Also, because of the incorrect finding reference, the incorrect finding types were recorded on the Data Collection Form. Circular A-133, Section .320(b) requires the information included in the form to be "accurate and complete."

Recommendation 2. PwC should ensure that future Data Collection Forms filed with the Federal Audit Clearinghouse are consistent with the audit report.

Management's Response. PwC concurred, stating that the errors were inadvertent and that it will work with the University to file a corrected Data Collection Form with the Federal Audit Clearinghouse. PwC also stated that additional reviews would be made by both PwC and University personnel to ensure such inadvertent errors do not recur.

Evaluation of Management's Response. Management's planned corrective action is responsive to the intent of our recommendation. We consider the recommendation closed.

We appreciate the courtesies extended to the staff during our review. For additional information on this report, please contact Mr. Mark Jenson, Financial Statement Audits Director, at 202-358-0629. See Enclosure 4 for the report distribution. The review team members are listed inside the back cover of this report.

signed

Evelyn R. Klemstine
Assistant Inspector General for Auditing

4 Enclosures

QUALITY CONTROL REVIEW PROCESS

Scope and Methodology

We conducted a quality control review of the PwC audit of UAH for FY 2006 and of the resulting reporting package submitted to the Federal Audit Clearinghouse. We performed our review May 12–16, 2008, at UAH, Alabama. For FY 2006, UAH reported total Federal expenditures of \$79,170,757; \$58,650,643 is attributable to NASA.

As the audit agency responsible for performing the review, we focused the review on six areas:

- reporting,
- auditor qualifications,
- planning,
- conduct of the audit work,
- audit work relating to the Schedule of Expenditures of Federal Awards, and
- supervision.

In conducting our review, we assessed the audit documentation prepared by PwC. We also discussed the audit with PwC audit personnel. We emphasized the areas that are of major concern to the Federal Government, such as determining and auditing major program compliance and internal controls.

Single Audit Requirements

The Single Audit Act (the Act), Public Law 98-502, as amended, and OMB Circular A-133 are designed to improve the financial management of State and local governments and nonprofit organizations. The Act and OMB Circular A-133 establish uniform auditing and reporting requirements for all Federal award recipients who are required to obtain a single audit. OMB Circular A-133 establishes policies that guide implementation of the Act and provide an administrative foundation for uniform requirements of non-Federal entities administering Federal awards. OMB Circular A-133 applies to all Federal departments and agencies that make awards to non-Federal entities. Entities that expend \$500,000 or more of Federal awards in a fiscal year are subject to the Act and the audit requirements in OMB Circular A-133 and, therefore, must have an annual single or program-specific audit performed in accordance with GAGAS.

To meet the requirements of the Act and OMB Circular A-133, the auditee submits to the Federal Audit Clearinghouse a complete reporting package on each single audit. The submission includes the following:

- a data collection form certified by the auditee and auditor that the audit was completed in accordance with the Circular;
- financial statements and related opinion;
- a Schedule of Expenditures of Federal Awards and related opinion;
- a report on compliance and internal controls over financial reporting;
- a report on internal control over compliance for major programs;
- a report on compliance with requirements for major programs and related opinion;
- a schedule of findings and questioned costs;
- a summary schedule of prior audit findings, when appropriate; and
- a corrective action plan, when appropriate.

The Supplement assists auditors in identifying the compliance requirements that the Federal Government expects to be considered as part of the single audit. For each compliance requirement, the Supplement describes the related audit objectives for the auditor to consider in each audit conducted in compliance with OMB Circular A-133 as well as suggested audit procedures. The Supplement also describes the objectives of internal controls and characteristics that, when present and operating effectively, help ensure compliance with requirements. The following 14 compliance requirements identified in the Supplement may be material to a major program that is 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 and Relocation Assistance
12. Reporting
13. Subrecipient Monitoring
14. Special Tests and Provisions

The American Institute of Certified Public Accountants (AICPA) Audit Guide, “Government Auditing Standards and Circular A-133 Audits,” May 2003, provides

guidance on auditor responsibilities for conducting audits according to the Act and OMB Circular A-133. In general, the Audit Guide provides auditors with an understanding of the unique planning, performance, and reporting considerations for single audits performed in compliance with GAGAS. In addition, the Audit Guide uses summary tables and detailed discussions to provide the auditor with an understanding of the additional GAGAS general, fieldwork, and reporting requirements, including the additional standards relating to quality control systems, continuing professional education, workpapers, audit follow-up, and reporting.

The Audit Guide emphasizes that, when planning an audit to meet the requirements of OMB Circular A-133, several factors should be considered in addition to those ordinarily associated with an audit of financial statements in accordance with generally accepted auditing standards and GAGAS. The factors include, but are not limited to, the following:

- Determining that the Schedule of Expenditures of Federal Awards is presented fairly in relation to the financial statements taken as a whole.
- Determining major programs for audit using a risk-based approach.
- Determining compliance requirements.
- Gaining an understanding of internal control over compliance for major Federal programs.
- Testing internal control over compliance for major programs.
- Determining compliance with laws, regulations, and the provisions of contracts or grant agreements pertaining to Federal awards that have a direct and material effect on each major program.
- Satisfying the additional requirements of the Act and OMB Circular A-133 for audit documentation, audit follow-up, and reporting.

Latest Peer Review

We reviewed the most recent peer review report on PwC, prepared by Deloitte & Touche LLP, for the year ended June 30, 2006. The report, issued December 8, 2006, stated that the system of quality control for the accounting and auditing practice applied by PwC to the audits of non-SEC issuers of financial statements was designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA. The peer review found that PwC had complied with the quality control standards during the year ended June 30, 2006, providing the firm with reasonable assurance of complying with applicable professional standards. The peer review report stated a separate letter was issued with comments relating to certain

policies and procedures or compliance with them, but were not considered to be of sufficient significance to affect the opinion expressed in the report. PwC responded to those comments on December 8, 2006, agreeing to take appropriate corrective action.

RESULTS OF THE PwC AUDIT OF UAH FOR FY 2006

PwC Audit Report

PwC issued its report, dated March 14, 2007, on the financial statements for UAH. PwC reported that it had performed the audit in accordance with generally accepted auditing standards. It further stated that the financial statements presented fairly, in all material respects, the financial position of UAH and its discretely presented component unit at September 30, 2006 and 2005, and the respective changes in its financial position and cash flows, as applicable, for the years then ended in conformity with accounting principles generally accepted in the United States.

PwC Audit Report on Internal Control and Compliance and Other Matters

PwC's "Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards," March 14, 2007, stated that PwC "noted no matters involving the internal control over financial reporting and [UAH's] operation that we consider to be material weaknesses [and] no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards." However, PwC reported that it noted certain other matters that were reported to management in a separate letter dated March 14, 2007.

PwC Audit Report on Major Program Compliance and Internal Control

PwC's "Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133," August 27, 2007, stated PwC's adverse opinion that UAH did not comply, in all material respects, with the requirements applicable to research and development programs. Also in PwC's opinion, UAH complied, in all material respects, with reporting requirements applicable to each of its other major programs for the year ended September 30, 2006. However, the results of PwC's auditing procedures disclosed other instances of noncompliance. PwC also noted a certain matter involving the internal control over compliance and its operation that PwC considered a material weakness related to research and development programs.

PwC also expressed its opinion, within the report, on the Schedule of Expenditures of Federal Awards for UAH. PwC stated that the information contained in the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

MANAGEMENT COMMENTS

Page 1 of 1

Pacious, John (HQ-WAH10)

From: michael.w.lammons@us.pwc.com
Sent: Wednesday, August 06, 2008 11:50 AM
To: Pacious, John (HQ-WAH10)
Cc: will.cobb@us.pwc.com; will.s.kelly@us.pwc.com; mary.kathryn.treusdell@us.pwc.com; ralph.deacetis@us.pwc.com; pinnerr@email.uah.edu; Robert.Leonard@uah.edu
Subject: Responses to NASA Audit Report

John,

Please see our comments to the draft report I received this week. We would like these responses to be incorporated if possible. Please let me know you have received this email and forwarded to the appropriate persons within your agency. We appreciate the time and effort you spent on the audit.

Finding A - PwC issued a financial statement opinion with the GAGAS references in connection with the DCF that is filed with the Clearinghouse. PwC also issued a financial statement opinion without such references for inclusion in the University's Annual Report. The opinion without the GAGAS references was inadvertently filed by the University in connection with the DCF filing to the Clearinghouse. PwC workpapers were made available to the NASA reviewer that include evidence that PwC issued both of these opinions to the University. In the future, PwC will ensure the University files the opinion with GAGAS references with the Clearinghouse. PwC will work with the University to refile the report with the Clearinghouse for 2007.

Finding B - PwC agrees with the finding and notes that these were inadvertent errors. In the future, additional reviews will be made by both PwC and the University to ensure such inadvertent errors do not recur. PwC will work with the University to refile the DCF with the Clearinghouse for 2007.

Thanks

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8/18/2008

REPORT DISTRIBUTION

Independent Audit Firm

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Mr. Michael W. Lammons, Partner

Audited Organization

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Mr. Robert C Leonard, Controller, The University of Alabama in Huntsville

NASA Headquarters

Deputy Administrator
Chief of Staff
Chief Financial Officer
Assistant Administrator for Procurement
Assistant Administrator for Internal Controls and Management Systems

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House Committee on Oversight and Government Reform

 Subcommittee on Government Management, Organization, and Procurement

House Committee on Science and Technology

 Subcommittee on Investigations and Oversight

 Subcommittee on Space and Aeronautics

Major Contributors to the Report:

Mark Jenson, Director, Financial Statement Audits Directorate

David Gandrud, Project Manager

John Pacious, A-133 National Single Audit Coordinator



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