

IG-00-040

**QUALITY
CONTROL
REVIEW
REPORT**

**DELOITTE & TOUCHE LLP AUDIT OF THE
UNIVERSITY OF GEORGIA RESEARCH
FOUNDATION, INC. FOR FISCAL YEAR ENDED
JUNE 30, 1999**

September 7, 2000



National Aeronautics and
Space Administration

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Acronyms

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

Office of Inspector General

September 7, 2000

Mr. Edward Heys, Partner
Deloitte & Touche LLP
191 Peachtree Street, NE, Suite 1500
Atlanta, GA 30303-1924

Re: Final Report on Quality Control Review of Deloitte & Touche LLP Audit of The University of Georgia Research Foundation, Inc. for Fiscal Year Ended June 30, 1999, Assignment Number A0003600
Report No. IG-00-040

Dear Mr. Heys:

The subject final report is provided for your use and comment. Please refer to the Executive Summary for the overall audit results. Our evaluation of your response is incorporated into the body of the report. With respect to management's partial concurrence with the recommendation, we request that management reconsider its position to correct the Foundation's fiscal year 1999 audit and provide additional comments by September 22, 2000. The recommendation will remain open for reporting purposes until corrective action is completed. In addition, please notify us when action has been completed on the recommendation.

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 E of the report.

Sincerely,

[Original signed by]

Russell A. Rau

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/Acting Director, Management Assessment Division

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NASA Office of Inspector General

IG-00-040
A0003600

September 7, 2000

Quality Control Review of Deloitte & Touche LLP Audit of The University of Georgia Research Foundation, Inc. for Fiscal Year Ended June 30, 1999

Executive Summary

Background. The University of Georgia Research Foundation, Inc. (Foundation), of Athens, Georgia, contributes to the educational, research, and service functions of The University of Georgia through gifts, contributions, and grants from individuals, private organizations, and Government agencies to perform sponsored research, development, or other programs of the University. All research grants awarded to the Foundation are subcontracted to the University of Georgia, which administers the grants.

The Department of Health and Human Services (HHS) is the cognizant audit agency for the Foundation, and the National Aeronautics and Space Administration (NASA) is a Federal funding agency to the Foundation. HHS granted the NASA Office of Inspector General permission to perform a quality control review of the Deloitte & Touche LLP (D&T) audit of the Foundation for the fiscal year ended June 30, 1999.¹ Office of Management and Budget (OMB) Circular A-133² requires the audit. The Foundation reported total fiscal year Federal expenditures for NASA of \$642,839 and total expenditures of \$54,039,566.

Appendix A provides details on the single audit requirements.

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

The objectives of our quality control review were to determine whether D&T 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

¹The Atlanta, Georgia, office of D&T, performed the single audit for the Foundation for the fiscal year ended June 30, 1999.

²Appendix A contains information on OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit

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

OMB Circular A-133. See Appendixes B and C for details on the objectives, scope, and methodology.

Results of Review. D&T issued its audit report on the Foundation on September 17, 1999. The D&T working papers for the audit contained deficiencies because D&T did not adequately communicate the internal auditor's scope of work related to documenting internal controls for the research and development program. Without sufficient documentary evidence to support that the auditors understand internal controls, an independent reviewer cannot determine whether the auditors properly planned the audit and would not know the auditors' basis for the conclusions on internal control.

- **Reported A-133 Results.** D&T (1) identified a compliance finding on a National Science Foundation award, (2) questioned no costs, and (3) issued an unqualified opinion⁴ on the financial statements, Schedule of Expenditures of Federal Awards,⁵ and major program compliance.⁶ 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.⁷ Finally, the auditors noted no matters involving internal controls (relating to the financial statement or major programs) that are considered to be material weaknesses.⁸
- **Report Quality Review Results.** The Foundation audit report meets the applicable reporting guidance and regulatory requirements contained in OMB Circular A-133.
- **Audit Quality Review Results.** The D&T audit work generally meets the applicable auditing guidance and requirements contained in: (1) OMB Circular A-133 and its related Compliance Supplement, (2) generally accepted government auditing standards, and (3) generally accepted auditing standards for the research and development major program. However, D&T did not adequately communicate the scope of the internal auditor's work as required by the American Institute of Certified Public Accountants' (AICPA) Codification of Statements on Auditing Standards. The working

⁴An unqualified opinion means that the financial statements are presented fairly in all material respects, expenditures of Federal funds are presented fairly, in relation to the financial statements taken as a whole, and the auditee has complied with all applicable laws, regulations, and contract provisions that could have a direct and material effect on each major program.

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

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

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

⁸The American Institute of Certified Public Accountants (AICPA) Statement of Position (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."

papers do not meet the generally accepted government auditing standards and AICPA Codification of Statements on Auditing Standards documentation requirements. Consequently, without an oral explanation for an independent reviewer, there is no evidence to indicate (1) that the auditors understood internal controls and appropriately planned the audit or (2) the basis for the auditors' conclusion. However, this deficiency did not affect the audit opinion because the requisite audit work was, in fact, performed but not properly documented. Details are in the finding.

Recommendations. We recommend that for the Foundation's fiscal year ended June 30, 1999, and for future audits, D&T document the scope of the internal audit work and ensure that the auditors' understanding of internal controls is adequately documented.

Deloitte & Touche LLP will consider NASA's comments in future audits.

Evaluation of Management's Response. The Deloitte & Touche LLP comments are partially responsive to the recommendation. The firm did not address whether it would correct the deficiencies in the Foundation's fiscal year 1999 audit. An independent reviewer should be able to understand how the contents of the working papers meet the OMB Circular A-133 auditing requirements without an oral explanation by the auditors. We ask that Deloitte & Touche LLP reconsider its position and provide us additional comments in response to the final report.

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.⁹

Appendix A contains additional details on the Single Audit requirements.

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

Finding and Recommendations

Internal Control Documentation

The internal auditors at the Foundation prepared working papers that do not meet the generally accepted government auditing standards and the AICPA Codification of Statements on Auditing Standards documentation requirements. The working papers are incomplete in that without an oral explanation, they do not adequately describe the auditors' understanding of internal controls for the research and development program. This occurred because D&T did not adequately communicate the audit scope to the internal auditors. Without sufficient documentary evidence to support that the auditors understand internal controls, an independent reviewer (1) cannot determine whether the auditors properly planned the audit and (2) would not know the auditors' basis for the conclusions on internal control.

Internal Control 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.¹⁰ 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 requirements¹¹ for each major program. The auditors must also determine whether the internal controls are operating. The auditors plan the internal control testing to support a low assessed level of control risk for the

¹⁰A major program is a Federal program that the auditors determined through risk analysis is subject to audit for the organization's current fiscal year.

¹¹Appendix A describes the compliance requirements.

assertions¹² relevant to the compliance requirements for each major program. SOP 98-3, section 8.16, explains:

“... [F]ederal agencies want to know if conditions indicate that auditees have not implemented adequate internal control over compliance for federal programs to ensure compliance with applicable laws and regulations.”

OMB Circular A-133 Compliance Supplement, Part 6, provides guidance on reviewing 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.

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, D&T must review and accept the internal auditor’s work as its own. D&T must also issue 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. D&T met the requirements of §322, except for requirements in subsection 322.27, “Using Internal Auditors to Provide Direct Assistance to the Auditor,” which 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

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

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

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]

Working Paper Documentation Requirements

D&T did not meet the AICPA and the generally accepted government auditing standards for working paper documentation. 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 and understand the auditors' judgments and conclusions.

Using the Internal Audit Department

D&T worked with the Foundation's Internal Audit Department for several years to plan and perform the annual OMB Circular A-133 audit. D&T plans the Internal Audit work to include documenting and testing internal controls and compliance through a series of questions for the only major program at the Foundation: research and development. D&T and the internal auditors developed questions to meet the audit objectives for each of the 14 compliance requirements (see Appendix A) that are applicable and material to the research and development program at the Foundation. When OMB revised the requirements of the Circular on June 24, 1997, D&T and the internal auditors added, deleted, and modified the questions and adjusted the audit scope accordingly. D&T determined the Internal Audit audit scope, sampling plan, and sample size and approved the attributes that Internal Audit tested. D&T also retested about 50 percent of the work of the internal auditors. D&T did not adequately explain to the internal auditors that the questions were meant to reflect an audit of internal controls and compliance. Therefore, for the fiscal year 1999 audit, the internal auditors mistakenly understood that their audit scope included only compliance testing. Internal audit did not know that the audit questions were also meant to address an understanding and testing of the internal controls. In addition to the questions, the internal auditors created working papers that explained the purpose for each question and the steps that the internal auditors took to determine compliance. D&T interpreted the Internal Audit responses and supplemental explanations to the questions as the internal auditors' support for the entire audit of the

research and development audit program. D&T explained to NASA that the questions addressed internal controls and compliance, although the internal auditors were unaware of the questions' dual purpose.

Effect of Internal Control Documentation on the Audit

In general, OMB Circular A-133 §____.500(c)(1) requires the auditor to obtain an understanding of internal controls sufficient to plan the audit to support a low assessed level of control risk for major programs. Without sufficient documentary evidence and an oral explanation to support that the auditors understand internal controls, an independent reviewer cannot determine whether the auditors properly planned the audit and would not know the auditors' basis for the conclusions on internal control. However, the audit opinion is unaffected.

Recommendations, Management's Response, and Evaluation of Response

We recommend that, for the Foundation's fiscal year ended June 30, 1999, and for future audits, Deloitte & Touche LLP should:

- 1. Review the Foundation's internal audit working papers to ensure that the working papers document the 5 components of internal control that are material and applicable to each of the 14 compliance requirements for each major program audited.**
- 2. Document the specific scope of work for the internal auditors in accordance with generally accepted government auditing standards and AICPA standards to ensure that their work meets the objectives and audit requirements of OMB Circular A-133.**

Management's Response. Deloitte & Touche LLP will consider NASA's comments in future audits.

Evaluation of Management's Response. The Deloitte & Touche LLP comments are partially responsive to the recommendation. The firm did not address whether it would correct the deficiencies in the Foundation's fiscal year 1999 audit. The 1999 working papers are incomplete because they do not adequately document the internal audit scope and the internal auditors' understanding of internal controls. Therefore, independent reviewers will require an oral explanation of how the working papers meet the OMB Circular A-133 auditing requirements and the GAGAS and AICPA working paper standards. We ask that in response to the final report, Deloitte & Touche LLP provide us additional comments on whether it will correct the deficiencies in the 1999 audit.

Appendix A. Single Audit Requirements

The Inspector General Act of 1978, as amended (Public Law 95-452), requires an agency's Inspector General to "take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General."

The Single Audit Act of 1984 (Public Law 98-502) was intended to improve the financial management of state and local governments, while OMB Circular A-133 was intended to improve financial management for nonprofit organizations. The Act and the Circular established uniform requirements for audits of Federal financial assistance, promoted efficient and effective use of audit resources, and helped to ensure that Federal departments and agencies rely on and use the audit work to the maximum extent practicable.

The Single Audit Act Amendments of 1996 (Public Law 104-156) incorporate the previously excluded nonprofit organizations. Including the nonprofit organizations strengthens the usefulness of the audits by establishing one uniform set of auditing and reporting requirements for all Federal award recipients that are required to obtain a single audit. Major changes to the Act include: (1) increasing the audit threshold from \$25,000 to \$300,000 with respect to Federal financial assistance programs before an audit is required; (2) selecting Federal programs for audit based on a risk assessment rather than the amount of funds involved; and (3) improving the contents and timeliness of single audits.

OMB issued the revised Circular A-133 on June 24, 1997, pursuant to the Single Audit Act Amendments of 1996. In general, the Circular requires that an auditee who expends \$300,000 or more annually in Federal awards obtain an audit and issue a report of its Federal award expenditures in accordance with the generally accepted government auditing standards applicable to financial audits. The audit must be performed by auditors who meet the independent standards in generally accepted government auditing standards and in accordance with the auditing and reporting requirements of the Circular and its related Compliance Supplement. The audit report submission contains the:

- financial statements and related opinion,
- Schedule of Expenditures of Federal Awards and related opinion,
- report on the internal controls and compliance review of the financial statements,
- report on internal controls reviewed and compliance opinion on major programs, and
- Schedule of Findings and Questioned Costs.

The auditee must also submit a Data Collection Form to the Department of Commerce Clearinghouse. The form summarizes the significant information in the audit report for dissemination to the public through the Internet. Responsible officials from the audited entity and the audit organization sign the form certifying to the information presented.

The Compliance Supplement is based on the requirements of the Single Audit Act Amendments of 1996 and the final June 24, 1997, revision of OMB Circular A-133, which provide for the issuance of a compliance supplement to assist auditors in performing the required audits. The National State Auditors Association study states:

The Compliance Supplement provides an invaluable tool to both Federal agencies and auditors in setting forth the important provisions of Federal assistance programs. This tool allows Federal agencies to effectively communicate items which they believe are important to the successful management of the program and legislative intent

Compliance with the Supplement satisfies the requirements of OMB Circular A-133. The Supplement identifies Federal programs by Federal agency. The Supplement identifies existing, important, compliance requirements, which the Federal Government expects the auditors to consider as part of an audit required by the 1996 Amendments. Using the Supplement eliminates the need for the auditors to research the laws and regulations for each major program audit to determine the compliance requirements that are important to the Federal Government and that could have a direct and material effect on the major program. The Supplement is a more efficient and cost-effective approach to performing this research. It "... provides a source of information for auditors to understand the Federal program's objectives, procedures, and compliance requirements relevant to the audit as well as audit objectives and suggested audit procedures for determining compliance with the requirements."

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

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

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

Appendix B. Objectives and Scope

Audit Report Review

The objective of an audit report review 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 agency for audit for the Foundation, and NASA is a Federal funding agency to the Foundation. HHS granted the NASA Office of Inspector General permission to perform a review of the D&T audit report of the Foundation's fiscal year ended June 30, 1999. We reviewed the report for compliance with the requirements of the Single Audit Act, Single Audit Act Amendments of 1996, and OMB Circular A-133. We focused our review on the report's qualitative aspects of (1) due professional care; (2) 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 standards¹³ 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

¹³These standards are broad statements of the auditors' responsibilities, promulgated by the Comptroller General of the United States.

Appendix B

determining and auditing major program compliance and internal controls. We conducted the review April 4 and 5, 2000, at the Atlanta, Georgia, office of D&T. The NASA Office of Inspector General has not performed quality control reviews at other D&T offices.

Peer Review Reports

We reviewed the November 30, 1999, report on the most recent peer review of D&T, performed by Ernst & Young L.L.P. The Ernst & Young L.L.P. review determined that D&T met the objectives of the quality control review standards established by the AICPA and that D&T complied with the standards during the fiscal year ended March 31, 1999.

Appendix C. Quality Control Review Methodology

Independent Auditors' Report

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. 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.

Supplemental 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 that the Schedule 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 expenditure amounts from the Schedule to the Subsidiary Ledger and/or Trial Balance.

Independent Auditors' Report on Compliance and Internal Control over Financial Reporting Based Upon the Audit 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

Independent Auditors' Report on Compliance and Internal Control Over Compliance Applicable to the Major Federal Award Program 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, reviewed the compliance tests performed, and reevaluated selected compliance items.

The auditors must perform procedures to obtain an understanding of internal controls over Federal programs that is sufficient to plan an audit to support a low-assessed level of control risk for major programs. The auditors must plan and perform internal controls testing over major programs to support a low level of control risk for the assertions relevant to the compliance requirements for each major program. We reviewed the audit programs for the appropriate procedures and working paper documentation related to the auditor's understanding of internal controls. Finding A contains additional details regarding internal controls documentation.

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.

Status of Findings Related to Prior Year's Audit

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

in which the Summary Schedule of Prior Audit Findings materially misrepresents the status of any prior audit finding. We reviewed the audit programs for the appropriate procedures and the working paper documentation that support the review.

Appendix D. Deloitte & Touche LLP Comments

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**Deloitte
& Touche**

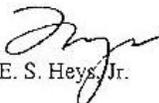
August 15, 2000

Mr. Russell A. Rau
Office of Inspector General
National Aeronautics and Space Administration
Washington, DC 20546-0001

Dear Mr. Rau:

In response to your Review of Deloitte & Touche Audit of The University of Georgia Research Foundation, Inc. for Fiscal Year Ended June 30, 1999, we appreciate your constructive comments and will certainly consider your suggestions in the completion of future audits of The University of Georgia Research Foundation.

Sincerely,


E. S. Heys, Jr.
ESH/db

Deloitte
Touche
Tohmatsu

TOTAL P. 02

Appendix E. Report Distribution

Audit Firms/Auditors

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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
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