

**QUALITY
CONTROL
REVIEW
REPORT**

**ERNST & YOUNG LLP AUDIT OF THE
ALABAMA SPACE SCIENCE EXHIBIT
COMMISSION AND THE ALABAMA SPACE
SCIENCE FINANCE AUTHORITY FOR THE
FISCAL YEAR ENDED SEPTEMBER 26, 1999**

March 27, 2002



National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

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Acronyms

NASA	National Aeronautics and Space Administration
OIG	Office of Inspector General
OMB	Office of Management and Budget

March 27, 2002

Office of Inspector General

Mr. R. Coleman Loper, Partner
Ernst & Young LLP
600 Peachtree Street, Suite 2800
Atlanta, GA 30308-2215

Re: Final Report on the Quality Control Review of the Ernst & Young LLP Audit of the
Alabama Space Science Exhibit Commission and the Alabama Space Science
Finance Authority for the Fiscal Year Ended September 26, 1999
Assignment Number A-02-008-00
Report Number IG-02-012

Dear Mr. Loper:

Enclosed please find the subject final report. Please refer to the Results of Review for the overall results. Our evaluation of your response has been incorporated into the body of the report. The corrective actions completed for the recommendations are sufficient to close them for reporting purposes. The final report distribution is in Appendix F.

We appreciate the courtesies extended to the audit staff. 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.

Cordially,

[Original Signed By]
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

MSFC/DA01/Director, George C. Marshall Space Flight Center

NASA Office of Inspector General

IG-02-012
A-02-008-00

March 27, 2002

Ernst & Young LLP Audit of the Alabama Space Science Exhibit Commission and the Alabama Space Science Finance Authority for the Fiscal Year Ended September 26, 1999

Introduction

The Alabama Space Science Exhibit Commission (Commission) and the Alabama Space Science Finance Authority (Authority) are agencies of the State of Alabama. The Commission manages and controls facilities that display exhibits of space exploration and hardware provided by the National Aeronautics and Space Administration (NASA). The Commission also operates the U.S. Space and Rocket Center (Center) and the Space Camp programs in Huntsville, Alabama. The Authority issues bonds to finance the acquisition of facilities for the Center. For the fiscal year ended September 26, 1999, the Commission and Authority reported total direct NASA expenditures of about \$3.1 million.¹

NASA is the oversight agency for audit² for the Commission and Authority. The NASA Office of Inspector General (OIG) performed a quality control review of the Ernst & Young LLP (Ernst & Young) audit of the Commission and Authority for the fiscal year ended September 26, 1999.³ The Single Audit Act and the Single Audit Act Amendments of 1996⁴ require the audit. We performed the quality control review

¹ NASA was the only Federal agency that had awarded funds to the Commission and Authority in fiscal year 1999.

² 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.

³ The Birmingham, Alabama, office of Ernest & Young performed the single audit for the Commission and Authority for the fiscal year ended September 26, 1999. Appendix D discusses the results of the Ernst & Young 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 of 1996. Appendix A contains details on the Circular and Single Audit requirements.

because NASA is the oversight agency for audit, NASA awarded a \$3 million education grant to the Center,⁵ and because the Commission and Authority were experiencing significant financial difficulties.⁶

Objectives

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

Audit Report Review. The objectives of our report review were to determine whether the fiscal year 1999 audit report the Commission and Authority submitted to the Federal Audit Clearinghouse⁷ met reporting standards in generally accepted government auditing standards⁸ and met reporting requirements in Office of Management and Budget (OMB) Circular A-133.⁹

Working Paper Review. The objectives of our working paper review were to determine whether Ernst & Young conducted the fiscal year 1999 audit of the financial statements and major programs¹⁰ 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.

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

⁵ On April 2, 1999, NASA awarded grant number NAG8-1608 to provide assistance for educational programs that jointly benefited NASA and the Center.

⁶ On April 27, 2001, the Chief Examiner of the Alabama Department of Examiners of Public Accounts stated that the former Executive Director led the Commission's Board of Directors to believe that corporate donations would pay the costs for the fifth-grade educational program; however, the corporate pledges did not exist. The Center incurred about \$7.6 million in expenses for the program, and the Commission and Authority reported a net loss of about \$4.0 million for fiscal year 1999. In August 1999, the Commission terminated the program. Although the corporate donations were not received for the fifth-grade program, these actions did not affect NASA grant number NAG8-1608.

⁷ 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.

⁸ 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.

⁹ See footnote number 4.

¹⁰ 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.

Results of Review

We concluded the following based on our review of the reporting package the Commission and Authority submitted to the Federal Audit Clearinghouse for the fiscal year ended September 26, 1999, and Ernst & Young's working papers for the fiscal year 1999 audit:

- **Audit Report Quality Review.** The audit report met the applicable reporting standards. However, the report did not meet the OMB Circular A-133 reporting requirements because it was not submitted to the Federal Audit Clearinghouse within 9 months after the fiscal year end. The audit firm that was initially hired¹¹ did not complete the audit for the Commission and Authority, and the Commission subsequently hired Ernst & Young to perform the audit.
- **Working Paper Quality Review.** The Ernst & Young audit met the applicable standards. However, the audit did not meet the requirements in OMB Circular A-133 and its related Compliance Supplement because the auditors did not audit the reporting requirement¹² for the NASA major program.

¹¹ In August 1999, the Commission hired Dudley, Hopton-Jones, Sims and Freeman PLLP to perform the fiscal year audit, but the firm did not complete the audit.

¹² Reporting is 1 of the 14 compliance requirements that the Federal Government expects auditors to consider as part of an audit of a major program as required by the Single Audit Act and OMB Circular A-133. Appendix A lists the 14 compliance requirements.

Findings and Recommendation

Finding A. OMB Reporting Requirements

The Commission and Authority did not obtain an audit within 9 months of its fiscal year end as required by OMB Circular A-133. Prior to hiring Ernst & Young, the Commission had hired another audit firm to complete the audit for the fiscal year ended September 26, 1999. When the original firm did not complete the audit, the Commission hired Ernst & Young to perform the fiscal year 1999 audit. As a result of the delays, the Commission and Authority were unable to comply with the reporting requirements of OMB Circular A-133.

OMB Circular A-133 Requirements

OMB Circular A-133 §__.320 requires that the audit be completed and a data collection form and reporting package be submitted to the Federal Audit Clearinghouse within the earlier of 30 days after receipt of the auditor's report or 9 months after the end of the audit period. The data collection form provides information about the auditee, its Federal programs, and the results of the audit. The reporting package includes the financial statements and Schedule of Expenditures of Federal Awards,¹³ a summary schedule of prior audit findings, the auditor's report, and a corrective action plan.

Audit Not Completed in Time

In August 1999, the Commission hired Dudley, Hopton-Jones, Sims and Freeman PLLP (Dudley) to audit its operations for the fiscal year ended September 26, 1999. The audit had to be completed for the Commission and Authority to submit the data collection form and reporting package to the Federal Audit Clearinghouse no later than June 30, 2000. However, Dudley did not complete the audit, and the Commission subsequently hired Ernst & Young. Ernst & Young started the audit in September 2000 and completed it on October 27, 2000. The Federal Audit Clearinghouse received the Commission and Authority's data collection form and reporting package on January 16, 2001, about 7 months after the due date.

Effect on OMB Requirements

The Ernst & Young report on the audit of the Commission and Authority contained a finding on the late submission of the report. The finding stated that the Commission and Authority did not submit its data collection form and reporting package within 9 months after the end of the fiscal year. The auditors recommended that, in the future, management obtain a completed audit and make the necessary reporting submissions as soon as possible. The Commission and Authority's corrective action plan states that they agreed to complete all future reporting within the required time constraints. Because

¹³ The Schedule of Expenditures of Federal Awards shows the amount of annual Federal award expenditures by Federal agency for each program, contract, or grant.

Ernst & Young reported this finding and we consider the proposed corrective actions to be sufficient, we are not making additional recommendations.

Finding B. Reporting Compliance Requirement Not Audited

The Ernst & Young auditors did not audit the reporting requirement¹⁴ for NASA grant number NAG8-1608, which they identified as a major program.¹⁵ Based on the auditors' review of the grant document in the Center's files and on oral evidence from the Center's Controller, the auditors concluded that the reporting requirement was not applicable. As a result, the auditors did not document internal controls or perform internal control or compliance tests for the reporting requirement. Further, NASA and other report users cannot rely on the internal control assurances and the reported opinion on compliance.

Reporting Requirements in the NASA Grant

On April 2, 1999, NASA awarded grant number NAG8-1608 to the Center. The grant included provisions from NASA Procedures and Guidelines 5800.1D, "Grant and Cooperative Agreement Handbook," July 23, 1996,¹⁶ which addressed reporting requirements. The Grant Handbook sections referenced in the NASA grant document contained the following requirements:

- §1260.27, "Equipment and Other Property," required an inventory report by October 31 of each year;
- §1273.40, "Monitoring and Reporting Program Performance," required an annual performance report; and
- §1273.41, "Financial Reporting," required a Standard Form 272, Federal Cash Transaction Report, within 15 working days following the end of each quarter of the grant performance period.

OMB Auditing Requirements

OMB Circular A-133 describes the audit scope in §___.500. The auditors are required to (1) plan the testing of internal control for each major program; (2) perform the planned internal control testing; and (3) determine whether the audited organization has complied with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect on each of the major programs audited.

The OMB Circular A-133 Compliance Supplement, Parts 3 and 6, provide auditors guidance on auditing compliance with and reviewing internal controls for the reporting requirement.¹⁷ 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 objectives for the reporting requirement, the Supplement states that auditors must determine whether the

¹⁴ See footnote number 12.

¹⁵ See footnote number 10.

¹⁶ The July 23, 1996, version of the Grant Handbook was in effect when NASA grant number NAG8-1608 was awarded.

¹⁷ Appendix A contains details on the Compliance Supplement requirements.

required reports for Federal awards include all activity of the reporting period, are supported by applicable accounting records, and are fairly presented in accordance with program requirements. To meet the internal control objectives for the reporting requirement, the auditors must determine whether the organization's internal control system provides reasonable assurance that the compliance objectives for the reporting requirement are met.

Reporting Requirement Determined to be Not Applicable

Prior to our review, we obtained a copy of the grant document from the NASA Office of Procurement. We found that NASA grant number NAG8-1608 contained requirements to submit three reports to NASA. However, the auditors had concluded that reporting was not applicable to the grant. Therefore, we discussed the issue with the auditors. The Ernst & Young auditors were not aware of the grant's reporting requirements. They explained that, as part of the fiscal year 1999 audit, they reviewed the Controller's copy of the grant document and discussed with the Controller the applicability of the 14 compliance requirements. The copy of the grant document, which the auditors received from the Controller, did not contain the attachment that referred to the reporting provisions from the Grant Handbook. Further, the Controller stated that the reporting requirement was not applicable to the grant. The auditors stated that they applied appropriate auditing procedures and concluded that the reporting compliance requirement was not applicable. Consequently, they performed no audit work related to the requirement.

In response to our inquiries during field work, the auditors obtained and provided us copies of the reports that the Center had provided to NASA. Additionally, we discussed the reporting requirement with the Controller, who explained that he was not aware of the reporting requirement until he received a request from the grants officer at NASA's Marshall Space Flight Center (Marshall)¹⁸ in January 2001. Shortly thereafter, the Controller submitted the required reports to Marshall.¹⁹

Although the auditors concluded, based on information available to them at the time, that the reporting requirement was not applicable, NASA grant number NAG8-1608 contained provisions that the required reports be submitted to Marshall. Therefore, the auditors should document their understanding of internal controls over reporting and perform the required internal control and compliance tests for fiscal year 1999.

¹⁸ The Marshall grant office awarded grant number NAG8-1608 to the Center.

¹⁹ On January 25, 2001, the Controller submitted to Marshall the final Standard Form 272, "Federal Cash Transactions Report." On February 8, 2001, the Controller submitted to Marshall NASA Form 1018, "Report of Government-owned/Contractor-held Property," and Marshall Form 4204, "NASA-MSFC Technology Report."

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 provide internal control assurances and support the opinion in the report on compliance. Because the auditors did not document internal controls or perform internal control or compliance tests for the reporting compliance requirement as required by OMB Circular A-133, NASA and other users of the audit report cannot rely on the internal control assurances and the reported opinion on compliance.

Recommendations, Management's Response, and Evaluation of Response

We recommend that, at no additional cost to the Government, the Ernst & Young auditors:

- 1. Document their understanding of internal controls, plan and perform internal control tests, and test compliance for the reporting compliance requirement for fiscal year 1999.**
- 2. Determine the impact, if any, on the opinion in fiscal year 1999.**

Management's Response. Concur. Ernst & Young stated that, because the Commission and Authority were not aware of the reporting requirement for NASA grant number NAG8-1608, internal controls were not in place during fiscal year 1999. The auditors will document their findings for internal control and compliance with the reporting compliance requirement. Ernst & Young instructed the Commission and Authority to recall the fiscal year 1999 audit report, and the firm will reissue the report by March 31, 2002. The complete text of Ernst & Young's response is in Appendix E.

Evaluation of Response. Ernst & Young's actions are responsive to the recommendations. On March 25, 2002, the Commission and Authority submitted Ernst & Young's revised fiscal year 1999 audit report to the Federal Audit Clearinghouse. NASA and other users of the audit report can now rely on the internal control assurances and the reported opinion on compliance. We consider Ernst & Young's actions sufficient to close the recommendations for reporting purposes.

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 standards²⁰ 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 Alabama Space Science Exhibit Commission (Commission) and the Alabama Space Science Finance Authority (Authority), we performed a review of the audit report on the Commission and Authority for its fiscal year ended September 26, 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 the (1) financial statement, compliance, and internal control reporting; (2) Schedule of Expenditures of Federal Awards; and (3) Schedule of Findings and Questioned Costs.²¹

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 Commission and Authority, the NASA Office of Inspector General (OIG) conducted a quality control review of the Ernst & Young LLP (Ernst & Young) audit working papers. 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, and
- internal controls and compliance testing for major programs.

²⁰ See footnote number 8.

²¹ Appendix C describes the information in the Schedule of Findings and Questioned Costs.

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.

We emphasized the areas of major concern to the Federal Government such as determining and auditing major program compliance and internal controls. We conducted the review November 5-7, 2001, at the Birmingham, Alabama, 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 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.

Appendix C. Quality Control Review Methodology

Report of Independent Auditors on Combined Financial Statements and Supplementary Schedule of Expenditures of Federal Awards

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 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 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. Further, auditing standards require auditors to design the audit to provide reasonable assurance of detecting irregularities²² that are material to the financial statements and detecting material misstatements resulting from direct and material illegal acts.²³ Paragraph 4.13 of the generally accepted government auditing standards imposes an additional compliance standard for financial statement audits:

²² Irregularities are intentional misstatements or omissions of amounts of disclosures in financial statements.

²³ Direct and material illegal acts are violations of laws and regulations having a direct and material effect on the determination of financial statement amounts.

Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts. If specific information comes to the auditors' attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on the financial statements, auditors should apply audit procedures specifically directed to ascertaining whether that noncompliance has occurred.

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 Federal programs. The auditors are required to use the procedures in the Office of Management and Budget Circular A-133 Compliance Supplement to determine the compliance requirements for each major program. Further, the auditor should design the audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts. 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 control 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

Appendix C

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 program 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 Alabama Space Science Exhibit Commission and the Alabama Space Science Finance Authority for the Fiscal Year Ended September 26, 1999

On October 27, 2000, Ernst & Young LLP (Ernst & Young) issued the audit report for the Alabama Space Science Exhibit Commission (Commission) and the Alabama Space Science Finance Authority (Authority) for the fiscal year ended September 26, 1999. The auditors issued an unqualified opinion²⁴ on the financial statements; Schedule of Expenditures of Federal Awards;²⁵ and 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.²⁶ Further, the auditors identified no material weaknesses²⁷ related to internal controls for the financial statements or major programs.

In addition to the finding that the data collection form²⁸ and reporting package were not submitted to the Federal Audit Clearinghouse within 9 months after the end of the fiscal year, the auditors reported that the Commission and Authority did not obtain written certifications on suspension and debarment from its contractors.²⁹

²⁴ 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.

²⁵ See footnote number 13.

²⁶ See footnote number 8.

²⁷ 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.

²⁸ The data collection form provides information about the auditee, its Federal programs, and the results of the audit.

²⁹ The suspension and debarment 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 Office of Management and Budget Circular A-133. For the suspension and debarment compliance requirement, non-Federal entities must obtain a certification from contractors receiving awards of \$100,000 or more and from all subrecipients that the organization and its principals are not suspended or debarred from performing government work. Appendix A lists the 14 compliance requirements.

Appendix D

In response to these findings, the Commission and Authority's corrective action plan stated that the Commission and Authority will complete all reporting within the required time constraints and that they will establish a policy of including suspension and debarment language into the "terms and conditions" of Federal contracts. The auditors will follow up on the status of the two findings during their audit of the Commission and Authority for fiscal year ended September 30, 2001.³⁰

³⁰ An audit was not required for the fiscal year ended September 24, 2000, because the Commission and Authority's Federal expenditures were less than \$300,000. The Commission and Authority's fiscal year ends on the last Sunday in September.

Appendix E. Management's Response



■ Ernst & Young LLP
Suite 2800
600 Peachtree Street
Atlanta, Georgia 30308-2215

■ Phone: (404) 874-8300
www.ey.com

February 27, 2002

Mr. Alan J. Lamoreaux
Assistant Inspector General for Audits
National Aeronautics & Space Administration
300 E Street, SW
Washington, DC 20024

Dear Mr. Lamoreaux:

Thank you for your letter dated February 14, 2002 regarding NASA's draft report on the Quality Control Review of the audit of the Alabama Space Science Exhibit Commission and the Alabama Space Science Finance Authority (collectively "the Commission") for the fiscal year ended September 26, 1999. I have reviewed the report and concur with the recommendation.

Based on the results of the procedures performed by the NASA Office of Inspector General, it appears that the reporting compliance requirements does, in fact, apply to NASA grant number NAG8-1608. However, we know that internal control over reporting did not exist during fiscal 1999, because the Commission was unaware of the reporting requirement. We will perform procedures and document our findings for internal control over compliance and compliance with the reporting requirements. We will also assess the impact of the results of these procedures on our 1999 auditors' reports required by OMB Circular A-133.

We have instructed the Commission's management to recall all of the 1999 reports issued under OMB Circular A-133. We will also perform the procedures outlined above and reissue our 1999 reports required by OMB Circular A-133. Given the anticipated time required to recall all of the reports and complete our procedures and reporting, I believe that we could provide you with revised reports no later than March 31, 2002.

I wonder if you would consider delaying the release of your report to incorporate the results of our work. We believe that you could essentially close the matter in the same document under that approach. If this is agreeable to you but the March 31, 2002 deadline poses a problem, please let me know, as we may be able to accelerate the deadline.

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Appendix E



■ Ernst & Young LLP

Mr. Alan J. Lamoreaux

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February 27, 2002

I want to take this opportunity to thank you for the opportunity to discuss these findings with your team in an open and constructive way. We are committed to providing you and the Commission with the appropriate level of audit procedures.

Very truly yours,

A handwritten signature in black ink, appearing to read 'R. Coleman Loper', written over a horizontal line.

R. Coleman Loper
Partner

Copy to James M. Williams
Carol Phillips

Appendix F. Report Distribution

Audit Firm

Mr. R. Coleman Loper, Partner
Ernst & Young

Audited Organization

Mr. Donald R. Claxton
Senior Vice President/Controller
Alabama Space Science Exhibit Commission and
Alabama Space Science Finance Authority

Executive Office of the President

Office of Management and Budget, Office of Federal Financial Management

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
F/Assistant Administrator for Human Resources and Education
G/General Counsel
H/Assistant Administrator for Procurement
J/Assistant Administrator for Management Systems
L/Assistant Administrator for Legislative Affairs
BF/Director, Financial Management Division
JM/Director, Management Assessment Division

NASA Centers

Director, George C. Marshall 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 Alabama Space Science Exhibit Commission and the Alabama Space Science Finance Authority for the Fiscal Year Ended September 26, 1999 (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 |
| <input type="checkbox"/> NASA Employee | <input type="checkbox"/> Public Interest |
| <input type="checkbox"/> Private Citizen | <input type="checkbox"/> Other: _____ |
| <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.

Major Contributors to the Report

Chester A. Sipsock, Program Director, Financial Management Audits, Quality and Oversight

Vera J. Garrant, Program Manager, Audit Quality and Reporting Group

Sandra L. Laccheo, Auditor-in-Charge

Nancy C. Cipolla, Report Process Manager

Annette Huffman, Program Assistant