



March 17, 2010

TO: Jennine Anderson  
Partner, UHY LLP

FROM: Jim Morrison /signed/  
Assistant Inspector General for Auditing

SUBJECT: Final Memorandum on the Quality Control Review of the UHY LLP Office of Management and Budget Circular A-133 Audits of the Universities Space Research Association for the Fiscal Year Ended September 30, 2008 (Report No. IG-10-008; Assignment No. A-10-001-00)

As the Federal cognizant agency for the single audits of the Universities Space Research Association (USRA), the NASA Office of Inspector General (OIG) conducted a quality control review of the audit of USRA, performed by the audit firm UHY LLP, for the fiscal year (FY) ended September 30, 2008. A single audit is required by the Office of Management and Budget (OMB) Circular No. A-133, "Audits of States, Local Governments, and Non-Profit Organizations." The objectives of our quality control review were to determine whether UHY LLP had conducted their audit in accordance with the Government Accountability Office's *Government Auditing Standards, July 2007 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 effective March 2008. 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 UHY. See Enclosure 2 for the results of the UHY LLP's audit of USRA for FY 2008.

### ***Executive Summary***

UHY LLP's audit work substantially met GAGAS and the auditing and reporting requirements of OMB Circular A-133 with one exception regarding documenting their evaluation of the impact of nonaudit services on independence. As a result, we recommended that UHY LLP implement supplemental safeguards to cover any nonaudit services that would not impair independence by documenting in their workpapers their evaluation of the impact of those nonaudit services on their independence.

Management's comments on the draft of this memorandum are responsive (see Enclosure 3). We have closed the recommendation based on the described actions taken for the September 30, 2009, audit by UHY LLP of USRA.

**Management's Response.** In commenting on the draft of this memorandum, UHY LLP management concurred with our recommendation concerning documenting their consideration of and conclusion about the impact on independence of nonaudit services (see Enclosure 2), and we consider this recommendation resolved.

### ***Background***

USRA is a not-for-profit membership organization established pursuant to the District of Columbia Non-Profit Corporation Act to provide the means by which universities and other organizations can cooperate in developing knowledge associated with space science and technology. USRA's chartered purpose is to operate laboratories and other facilities under cost-type contracts, fixed-price contracts, and grants and cooperative agreements principally with the Federal government (primarily through NASA) for research, development and education associated with space science and technology. The Schedule of Expenditures of Federal Awards<sup>1</sup> identifies NASA as the funding agency for approximately \$59 million of the approximate \$61 million in total Federal expenditures for USRA.

### ***Review Results***

UHY LLP's audit work substantially met GAGAS and the auditing and reporting requirements of OMB Circular A-133 with one exception regarding documenting their evaluation of the impact of nonaudit services on independence.

UHY LLP provided nonaudit services for USRA by preparing the Internal Revenue Service Form 990, "Return of Organization Exempt from Income Tax," for the year ended September 30, 2008. Their workpapers did not contain an evaluation of the impact performing these services could have on independence for the single audit. UHY was not engaged to provide the tax preparation services until after the single audit was substantially complete, and UHY failed to document their consideration of and conclusion about the impact this service would have on the single audit.

According to GAGAS 3.28(g), "providing routine tax filings based on information provided by the audited entity" is among the nonaudit services that do not impair the auditors' independence with respect to the audit, as long as they comply with the supplemental safeguards outlined at GAGAS 3.30. Specifically, GAGAS 3.30(a) states, "For these nonaudit services, the audit organization should comply with each of the

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<sup>1</sup> The Schedule of Expenditures of Federal Awards shows the amount of annual Federal expenditures by Federal agency for each program.

following: (a) document its consideration of the nonaudit services, including its conclusions about the impact on independence; . . .”

***Recommendation, Management’s Response, and Evaluation of Management’s Response***

We recommended that UHY LLP implement supplemental safeguards to cover any nonaudit services that would not impair independence by documenting their evaluation of the impact of those nonaudit services on their independence in their workpapers.

**Management’s Response.** The UHY LLP audit partner concurred with the finding, stating that UHY LLP performed an evaluation to determine that there were no risks toward their independence by performing those nonaudit services. This evaluation was included in the planning documentation for the September 30, 2009, audit of USRA by UHY LLP.

**Evaluation of Management’s Response.** Management’s action is responsive and the recommendation is closed. We will accept the report with the understanding that failure to document the impact of providing nonaudit services will not be repeated in future audits.

We appreciate the courtesies extended during our review. If you have any questions, or need additional information, please contact Mr. Mark Jenson, Financial Statement Audits Director, Office of Audits, at 202-358-0629.

3 Enclosures

cc: Bill McNally  
Assistant Administrator for Procurement

Robert Senter  
Vice President, Universities Space Research Association

## **Scope and Methodology**

We performed this review from December 2009 through February 2010. We believe that the evidence obtained during this review provides a reasonable basis for our findings and conclusions based on our objectives.

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 UHY LLP. We also discussed the audit procedures and results with UHY LLP's 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 control.

We did not use computer-processed data to perform this review.

### ***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 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 control 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.

OMB issued the March 2008 Supplement to assist auditors in meeting the requirements of OMB Circular A-133. 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 control 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

### ***Peer Review of UHY LLP***

We reviewed the most recent peer review report of UHY LLP, prepared by Cherry, Bekaert and Holland LLP, for the year ended July 31, 2008. The report, issued January 30, 2009, stated that the system of quality control for the accounting and auditing practice applied by UHY LLP 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 American Institute of Certified Public Accountants (AICPA). The peer review found that UHY LLP had complied with the quality control standards during the year ended July 31, 2008, providing the firm with reasonable assurance of complying with applicable professional standards. There were no comments provided on less significant items found during the peer review.

## **Results of the UHY LLP Audit of USRA for FY 2008**

### ***UHY LLP Audit Report***

UHY LLP issued its report, dated February 6, 2009, on USRA's FY 2008 financial statements. In UHY LLP's opinion, "the financial statements ... present fairly, in all material respects, the financial position of USRA at September 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America."

UHY LLP also expressed its opinion, within the report, on the Schedule of Expenditures of Federal Awards for USRA. UHY LLP states 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.

### ***UHY LLP Audit Report on Internal Control and Compliance and Other Matters***

UHY LLP's "Report of Independent Auditors 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," February 6, 2009, states that "We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses." In addition, the report states, "the results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Audit Standards*."

### ***UHY LLP Audit Report on Major Program Compliance and Internal Control***

UHY LLP's "Report of Independent Auditors on Compliance with Requirements Applicable to each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133," dated February 6, 2009, expressed an unqualified opinion on USRA's compliance with the requirements that are applicable to its major federal program for the year ended September 30, 2008. In addition, the report states, "We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses."

## Management's Comments



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March 11, 2010

James L. Morrison  
Assistant Inspector General for Auditing  
Office of Inspector General  
National Aeronautics and Space Administration  
Washington, DC 20546-0001

Dear Mr. Morrison:

I am writing in response to your Draft Memorandum on the Quality Control Review of the UHY LLP Office of Management and Budget Circular A-133 Audits of the Universities Space Research Association for the Fiscal Year Ended September 30, 2008 (Assignment No. A-10-001-00.)

As requested, we are responding to your recommendation that "UHY LLP implement supplemental safeguards to cover any nonaudit services that would not impair independence by documenting their evaluation of the impact of those nonaudit services on their independence in their workpapers."

We agree that the workpapers did not contain documentation of the impact that preparation of the IRS Form 990 for the year ended September 30, 2008 could have on independence for the single audit. We also agree with your statement that "UHY was not engaged to provide the tax preparation services until after the single audit was substantially complete, and UHY failed to document their consideration of and conclusion about the impact this service would have on the single audit."

UHY LLP evaluated and determined that there were no risks to independence in providing assistance in preparation of Form 990 under Generally Accepted Government Auditing Standards. Since this service was requested after the audit had begun, it was not included in the planning memorandum. Documentation of such evaluation has been included in the planning documentation for the audit for the year ended September 30, 2009.

Please contact me at 410-423-4800 if you need additional information.

Sincerely,



B. Jennine Anderson  
Partner