

Inspector General

United States
Department of Defense



Additional Copies

To obtain additional copies of this report, visit the Web site of the Department of Defense Inspector General at www.dodig.mil/audit/reports or contact the Office of Audit Policy and Oversight at (703) 604-8760 or fax (703) 604-9808.

Suggestions for Future Reviews

To suggest ideas for or to request future reviews, contact the Office of Audit Policy and Oversight at (703) 604-8760 (DSN 664-8760) or fax (703) 604-9808. Ideas and requests can also be mailed to:

OAIG-APO
Department of Defense Inspector General
400 Army Navy Drive (Room 1016)
Arlington, VA 22202-4704

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@dodig.mil; or by writing to the Defense Hotline, The Pentagon, Washington, DC 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

D&T	Deloitte and Touche, LLP
GAS	Government Auditing Standards
OMB	Office of Management and Budget
SCRA	South Carolina Research Authority



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

JUL 25 2007

Audit Committee
South Carolina Research Authority

Chief Financial Officer
South Carolina Research Authority

Deloitte & Touche, LLP

SUBJECT: Report on Review of FY 2005 Single Audit of South Carolina Research Authority
(Report No. D-2007-6-007)

We are providing this report for your information and use. As the cognizant Federal agency for the South Carolina Research Authority (SCRA), we performed a review of the Deloitte and Touche, LLP (D&T) single audit and supporting workpapers for the fiscal year ended June 30, 2005, to determine whether the audit was conducted in accordance with Government Auditing Standards (GAS) and the auditing and reporting requirements of Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," (OMB Circular A-133). Appendix A contains additional background, scope and methodology for the review and Appendix B lists the compliance requirements applicable to the FY 2005 single audit.

Background. The SCRA was established by an act of the South Carolina General Assembly on April 29, 1983, to enhance the research capabilities of the state's universities and to develop high technology industries and research facilities in South Carolina. SCRA has its corporate home office in Columbia, South Carolina and has established three business segments: Research Parks, Technology Management, and the Trident Research Center. SCRA expended \$70.4 million in Federal awards for the fiscal year ended June 30, 2005, under the Research and Development Cluster Federal Program. Of the \$70.4 million, \$48.8 million was expended for DoD programs.

Review Results. We identified technical deficiencies in the D&T audit of three compliance requirements where the audit work performed did not provide sufficient evidence to support the auditors' overall opinion on the SCRA internal controls over and compliance with requirements material to the Research and Development Cluster. In addition, we identified the need for enhanced documentation demonstrating the auditors' understanding of internal control processes for several compliance requirements. The auditors concurred with our findings and agreed to immediately perform additional procedures to correct the technical deficiencies for the three material compliance requirements and to enhance documentation on internal control processes in future audits.

On April 17, 2007 and July 5, 2007, D&T provided sufficient support for their opinion on internal control and compliance for the deficiencies cited on the three compliance requirements (Cash Management, Matching, and Reporting), and Federal agencies can now rely on the D&T audit. The results of our review of the D&T corrective actions are discussed in the finding below.

Finding

Review of Internal Control and Compliance. The D&T auditors did not adequately document their understanding of internal control and did not perform sufficient procedures for the review of Cash Management, Matching, and Reporting compliance requirements. As a result, the working papers did not provide sufficient evidence to support the overall opinion on internal control and compliance over Federal program requirements. Because of these deficiencies, Federal agencies cannot rely on the audit to manage and monitor programs receiving advanced funds, programs with matching requirements or the accuracy and completeness of financial reports submitted by SCRA. Also, the D&T working papers did not document an understanding of internal control processes related to Activities Allowed or Unallowed, Allowable Cost/Cost Principles, and the Period of Availability compliance requirements. However, except for the documentation of internal control processes, the auditors performed and documented sufficient evidence to support their conclusions for these requirements.

OMB Circular A-133 requires the auditor to obtain and document an understanding of internal control over compliance requirements sufficient to plan the audit to support a low-assessed level of control risk. The auditor is then required to identify key internal controls and plan and perform tests of those controls sufficient to support the opinion on Federal programs.

Cash Management Compliance Requirement. The D&T auditors did not perform internal control and compliance testing to determine whether SCRA complied with the requirements of 2 CFR §215.22 by establishing procedures to minimize the time elapsed between the drawdown and disbursement of advanced payments. Also, the auditors did not perform audit procedures to determine whether interest earned on advances in excess of \$250 was reported and remitted to the appropriate agency as specified in the Compliance Supplement. Based on information provided during our review, SCRA received approximately \$35 million in advanced payments in FY 2005.

Matching Compliance Requirement. The D&T auditors did not perform procedures to determine the SCRA internal control over and compliance with the requirements in 2 CFR §215.23 to determine whether matching contributions came from allowable sources. Based on information provided during our review, SCRA expended Federal funds on awards with matching requirements of approximately \$15 million.

Reporting Compliance Requirement. The D&T auditors did not document their understanding of internal control for the Reporting compliance requirement. The auditors also did not perform internal control or compliance testing to ensure SCRA complied with the

requirement of 2 CFR §215.21 that states the financial management system should provide for accurate, current, and complete financial reporting in accordance with the reporting requirements in 2 CFR § 215.52. The work papers did contain copies of three reports (Standard Forms 269, 270, and 272); however, based on our review and discussions with D&T, there was no verification of the accuracy of the financial data contained in the reports.

Deloitte and Touche Corrective Action. Based on the deficiencies cited during our quality control review, D&T performed additional procedures for Cash Management, Matching, and Reporting compliance requirements and provided working paper documentation for our review. D&T provided subsequent working paper documentation that shows adequate actions taken on the Cash Management, Matching, and Reporting requirements.

Documentation of Understanding Internal Control. The auditors identified key internal controls related to the Activities Allowed or Unallowed/Allowable Costs/Cost Principles, and Period of Availability compliance requirements; however, they did not document their understanding of the internal control processes for these requirements. Based on our review of the working papers and our discussions with the audit manager, we were able to satisfy ourselves on the adequacy of the audit of these requirements. Auditing standards require that auditors document their understanding of internal control to support decisions made in the planning process. We recommend that documentation be enhanced for future single audits. The audit partner concurred.

Recommendations and Management Comments

Recommendation 1. We recommend that the Audit Partner, Deloitte and Touche, LLP:

- a. **Perform additional audit procedures, at no additional cost to the Government, to correct the deficiencies for the three material compliance requirements that we identified in our review of the FY 2005 single audit.**
- b. **Revise the Reporting Package to reflect, at a minimum, the date the additional audit work is completed, and submit the supporting documentation to our office for review.**
- c. **Forward the revised Reporting Package and signed Data Collection Form to the South Carolina Research Authority to file with the Federal Audit Clearinghouse.**
- d. **Provide the DoD Office of Inspector General with the working papers from the FY 2007 single audit that demonstrate the understanding of internal controls related to the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Availability Requirements.**

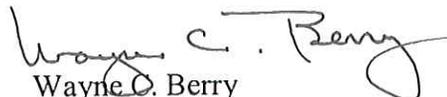
Deloitte and Touche, LLP Comments. Deloitte and Touche concurred with our recommendations. Management comments are included in their entirety at the end of this report.

Recommendation 2. We recommend that the Chief Financial Officer, South Carolina Research Authority file the revised Reporting Packing and signed Data Collection Form with the Federal Audit Clearinghouse and notify the DoD Office of Inspector General upon completion.

South Carolina Research Authority Comments. The South Carolina Research Authority concurred with our recommendations. Management comments are included in their entirety at the end of this report.

Other Matter of Interest. For future single audits at SCRA, we suggest that the D&T auditors coordinate with the Defense Contract Audit Agency. The Defense Contract Audit Agency performs contract audits at SCRA, and shared information between the two audit organizations could result in more efficient and effective audits.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Ms. Janet Stern at (703) 604-8750 (DSN 664-8750) or Ms. Felicia Fuller at (703) 604-9641 (DSN 664-9641). See Appendix C for the report distribution.


Wayne C. Berry
Acting Assistant Inspector General
Audit Policy and Oversight

Appendix A. Quality Control Review Process

Background, Scope and Methodology

The Single Audit Act, Public Law 98-502, as amended, was enacted to improve the financial management of State and Local Governments and nonprofit organizations by establishing one uniform set of auditing and reporting requirements for all Federal award recipients required to obtain a single audit. OMB Circular A-133 establishes policies that guide implementation of the Single Audit Act and provide an administrative foundation for uniform audit requirements of non-Federal entities administering Federal awards. Entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) are subject to the Single Audit Act and the audit requirements in OMB Circular A-133; therefore they must have an annual single or program-specific audit performed under Government Auditing Standards and submit a complete reporting package to the Federal Audit Clearinghouse.

We reviewed the D&T audit of South Carolina Research Authority for FY 2005 and the resulting reporting package that was submitted to the Federal Audit Clearinghouse dated March 16, 2006, using the 1999 edition of the “Uniform Quality Control Guide for the A-133 Audits” (the Guide). The Guide applies to any single audit that is subject to the requirements of OMB Circular A-133 and is the approved checklist of the President’s Council on Integrity and Efficiency for performing the quality control reviews. We performed the review from March through June 2007. The review focused on the following qualitative aspects of the single audit:

- Qualification of Auditors,
- Independence,
- Due Professional Care,
- Planning and Supervision,
- Internal Control and Compliance Testing,
- Schedule of Expenditures of Federal Awards, and
- Data Collection Form.

Appendix B. Compliance Requirements

OMB Circular A-133 Compliance Requirements	Applicable	Not Applicable
Activities Allowed/Unallowed	X	
Allowable Costs/Cost Principles	X	
Cash Management	X	
Davis-Bacon Act		X
Eligibility		X
Equipment and Real Property Management	X	
Matching, Level of Effort, Earmarking	X	
Period of Availability of Federal Funds	X	
Procurement, Suspension, and Debarment	X	
Program Income		X
Real Property Acquisition and Relocation Assistance		X
Reporting	X	
Subrecipient Monitoring	X	
Special Tests and Provisions	X	

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Director, Defense Procurement and Acquisition Policy

Other Defense Organizations

Director, Defense Contract Audit Agency
Branch Manager, Defense Contract Audit Agency North Carolina Branch Office

Department of the Air Force

Contracting Officer, Air Force Office of Scientific Research
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Air Force Audit Agency

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army

Department of the Navy

Chief, Office of Naval Research
Audit Liaison, Assistant Secretary of the Navy, Financial Management and Comptroller
Naval Inspector General
Auditor General, Department of Navy

Non-Government Organizations

Audit Committee, South Carolina Research Authority
*Chief Financial Officer, South Carolina Research Authority
*Director, Deloitte and Touche, LLP
Concurring Review Partner, Deloitte and Touche, LLP

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Homeland Security and Governmental Affairs

*Draft Report Recipient

House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Oversight and Government Reform
House Subcommittee on Government Management, Organization, and Procurement,
Committee on Oversight and Government Reform
House Subcommittee on National Security and Foreign Affairs,
Committee on Oversight and Government Reform

Deloitte & Touche, LLP Comments

Deloitte

June 28, 2007

Mr. Wayne C. Berry
Acting Assistant Inspector General
Audit Policy and Oversight
Department of Defense Inspector General
400 Army Navy Drive
Arlington, VA 22202-4704

Deloitte & Touche LLP
1100 Carillon Building
227 West Trade Street
Charlotte, NC 28202
USA
Tel: +1 704 887 1500
Fax: +1 704 887 1570
www.deloitte.com

Subject: Response related to Discussion Draft of a Proposed Report
Project No. D2007-DIP0AC-0136
Report on Review of FY 2005 Single Audit of South Carolina
Research Authority

Dear Mr. Berry:

Thank you for the opportunity to provide a response to the discussion draft of your quality control review report of the FY 2005 Single Audit of South Carolina Research Authority dated June 7, 2007 (copy enclosed). We appreciate the time Ms. Janet Stern and Ms. Felicia Fuller spent with us during the on site review in March and for providing recommendations regarding our action plan during the exit meeting that was held on the last day of their visit to our office in March.

Action Plan

A. We will, as suggested in recommendation 1 a of the discussion draft report, perform the following additional procedures:

1. Cash Management Compliance Requirement:

As was requested during the exit meeting in March 2007, we have already performed additional procedures related to cash management compliance requirements and have forwarded copies of such workpapers to Ms. Fuller. We understand your staff has certain follow up questions related to this additional work and we are in the process of addressing such questions.

With respect to the specific items denoted in your discussion draft:

- a. Our additional procedures include internal control and compliance testing to determine SCRA's compliance with requirements of 2 CFR 215.22 by establishing procedures to minimize the time elapsed between the drawdown and disbursement of advanced payments.

Member of
Deloitte Touche Tohmatsu

-
- b. Our additional procedures include audit procedures to determine whether interest earned on advances in excess of \$250 was reported and remitted to the appropriate federal agency.

2. Matching Compliance Requirement Finding:

As was requested during the exit meeting in March 2007, we have prepared an enhanced memo documenting our consideration of internal control over compliance and also performed additional procedures related to matching compliance requirements and have forwarded copies of such workpapers to Ms. Fuller. We understand your staff has certain follow up questions related to this additional work and we are in the process of addressing such questions.

With respect to the specific item denoted in your discussion draft, our additional procedures include performance of procedures to test SCRA's internal control over and compliance with the requirement in 2 CFR 215.23 to ensure that matching contributions came from allowable sources. This includes preparation of the enhanced system description memo to document our understanding of SCRA's procedures and internal controls related to the Matching Compliance Requirements and related testing of identified controls.

3. Reporting Compliance Requirement Finding:

As was requested during the exit meeting in March 2007, we have prepared an enhanced memo documenting our consideration of internal control over compliance and also performed additional procedures related to reporting compliance requirements and have forwarded copies of such workpapers to Ms. Fuller. We understand your staff has certain follow up questions related to this additional work and we are in the process of addressing such questions.

With respect to the specific items denoted in your discussion draft:

- a. Our additional procedures include preparation of the enhanced system description memo to document our understanding of SCRA's procedures and internal controls related to the Reporting Compliance Requirements.
- b. Our additional procedures include internal control and compliance testing procedures to related to SCRA's compliance with the requirement of 2 CFR 215.21 that states the financial management system should provide for accurate, current and complete financial reporting. These procedures included specific testing procedures to verify the accuracy of the financial data contained in the three reports (Standard Forms 269, 270 and 272) that were included in our original work papers that are referred to in your discussion draft.

B. Upon completion of the above additional procedures we will plan to reissue our single audit report and, at a minimum, date our report as of the date the additional procedures are completed. As you request, any related supporting documentation will be submitted to your office for review. In the event our additional procedures identify any findings on noncompliance, our report would reflect such items. As mentioned above, we have already substantially completed the additional procedures indicated in the above action plan and to date have not identified any instances of noncompliance. Accordingly, subject to finalizing our work, we anticipate the only change in our single audit report will be changing the date of our auditors' reports to reflect performance of the additional procedures discussed above.

C. Upon issuance of our updated report, as mentioned in B above, we will work with SCRA to have an updated Data Collection Form prepared for the fiscal year ended June 30, 2005 and ensure it is filed with the Federal Audit Clearinghouse.

D. We will provide the Department of Defense Inspector General with the working paper documentation from FY 2007 single audit that demonstrates our understanding of internal controls related to the Activities Allowed or Unallowed, Allowable Costs/ Cost Principles, and Period of Availability Requirements.

With respect to the "Other matter of interest" you included in your discussion draft report, for future single audits of SCRA we will attempt to contact the Defense Contract Audit Agency in an effort to coordinate the audit effort with the objective of performing more efficient and effective audits.

I believe the performance of the above action plan will fully address the findings discussed in your draft report.

Please do not hesitate to contact me if you have any questions regarding this matter. I may be contacted directly at 704-887-1548 or rbovard@deloitte.com.

Sincerely,



Richard L. Bovard
Director

South Carolina Research Authority Comments

From: Martin, Julia [MartinJ@scra.org]
Sent: Monday, July 02, 2007 11:41 AM
To: Fuller, Felicia, OIG DoD
Subject: FY 2005 Single Audit of SCRA Project No. D2007-DIP0AC-0136

Attachments: image001.jpg

Ms. Fuller,

I am receipt of the June 7, 2007 letter from Wayne C. Berry which details your recommendation for SCRA based on your review of D&T's work on our FY 2005 single audit. We will file a revised Reporting Package and signed Data Collection Form with the Federal Audit Clearinghouse. We will notify your office upon completion of this action. We are in touch with Mr. Rich Bovard at D&T and are currently awaiting a final revised audit opinion date prior to filing the revised documents.

I apologize for my delay in responding. Thank you for your guidance during this process. Please contact me directly if you need additional information or require further action by SCRA.

Regards,

Julia A. Martin
Chief Financial Officer
SCRA
5300 International Blvd., N. Charleston, SC 29418
www.scra.org <<http://www.scra.org/>> | 843-760-4087 | fax: 843-207-5253



Inspector General
Department of Defense

