Policy and Oversight

Financial and Performance Audits
Directorate

Quality Control Review

Clausell & Associates and Deloitte & Touche, LLP
Clark Atlanta University
Fiscal Year Ended June 30, 1996

Report Number PO 97-055 September 29, 1997

Office of the Inspector General
Department of Defense

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Acronyms

CAU	Clark Atlanta University
DoD	Department of Defense
GAAS	Generally Accepted Auditing Standards
GAS	Government Auditing Standards
OMB	Office of Management and Budget

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September 29, 1997

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SUBJECT: Quality Control Review of Clausell & Associates
and Deloitte & Touche, LLP
Clark Atlanta University
Fiscal Year Ended June 30, 1996
Report No. PO 97-055

Introduction

We are providing this report for your information and response. The Atlanta, Georgia, office of Clausell & Associates (Clausell), in coordination with the Atlanta office of Deloitte & Touche, LLP (Deloitte), performed the single audit for Clark Atlanta University (CAU), Atlanta, Georgia, a nonprofit institution of higher education. The audit is required by Office of Management and Budget (OMB) Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions." For the fiscal year ended June 30, 1996, CAU reported total Federal expenditures of $52,399,489, representing $7,687,439 from the Department of Defense (DoD) and $44,712,050 from other Federal agencies.

The Deloitte audit report is dated October 11, 1996. The auditors issued an unqualified opinion on the financial statements.

The Clausell audit report is dated October 9, 1996, and includes reports on internal controls, compliance, and the Schedule of Federal Awards. The auditors questioned $132,303 in costs related to Federal awards. The questioned costs relate to the Head Start program, Student Financial Aid programs, and fringe benefit costs associated with various sponsored programs. The auditors issued an unqualified opinion on the Schedule of Federal Awards and a qualified opinion on compliance with specific requirements applicable to major programs.

Clausell issued a statement of positive assurance with material noncompliance identified and a statement of negative assurance on compliance with general requirements.

Material instances of noncompliance consist of failure to follow the general requirements that cause the auditor to conclude the misstatements are material to the Schedule of Federal Awards and Other Financial Assistance. The material instances of noncompliance are indentifed in Enclosure 1, under General Requirements. The noncompliances include failure to resolve prior year findings and failure to make payroll authorizations in accordance with established policies. A statement of positive assurance in a report on compliance with general requirements when material noncompliance is identified states that, except for certain instances of noncompliance, the results of audit procedures to determine compliance indicate that, with respect to the items tested, CAU complied in all material respects with the general requirements. Negative assurance states that, with respect to the items not tested, nothing came to the auditors' attention that caused them to believe that CAU has not complied in all material respects.

The auditors also obtained an understanding of the internal controls related to the financial statements and Federal awards. The audit report describes the auditors' scope of work in obtaining that understanding and in assessing control risk. The report on internal controls further describes the significant internal controls and control structure, including reportable conditions, material weaknesses, and controls that provide reasonable assurance that Federal awards are being managed in accordance with applicable laws and regulations.

Quality Control Review Results

The OMB Circular A-133 coordinated audit performed by Deloitte and Clausell meets the applicable guidance and regulatory requirements in the OMB Circular A-133 and its related Compliance Supplement, which incorporate the Government Auditing Standards (GAS) and generally accepted auditing standards (GAAS). However, we found a situation during our review of the Deloitte working papers that needs management clarification. See our discussion of the finding below.

Immaterial Findings

Working Paper Access. The Deloitte engagement partner initially would not allow us to make copies of pertinent Deloitte working papers providing support and documentation for our conclusions. Section 515(b) of OMB Circular A-133 states:

> Access to working papers shall be made available upon request to the cognizant or oversight agency for audit or its designee. a Federal agency providing direct or indirect funding, or GAO [General Accounting Office] at the completion of the audit, as part of quality control review, to resolve audit findings, or to carry out oversight responsibilities consistent with the purposes of this part. Access to working papers includes the right of Federal agencies to obtain copies of working papers, as is reasonable and necessary.

The partner did not initially provide us access because she did not understand the requirements of OMB Circular A-133 regarding access to working papers. Without proper access to the working papers, we would have been unable to obtain corroborating evidence supporting the conclusions reached during our review. Subsequent to our field work, we were given copies of all working papers we requested. However, this situation should not be permitted to reoccur.

Deloitte incorporated the work performed by Clausell into the Deloitte reports on internal controls and compliance at the financial statement level and appropriately qualified the reports. However, Clausell issued separate reports covering its work in the internal control and compliance areas at the financial statement level. Although Clausell's issuance of the two reports is unnecessary and would be confusing to the reader of the OMB Circular A-133 audit reports, there is no effect on the audit results. In the future, we suggest that unnecessary reports that are duplicative in nature not be included in the OMB Circular A-133 package.

Recommendation for Corrective Action

We recommend that Deloitte & Touche LLP management issue appropriate guidance to its staff, addressing access to working papers related to audits performed in accordance with Government Auditing Standards that conform to Office of Management and Budget Circular A-133 requirements.

Quality Control Review Objective

The objective of a quality control review is to ensure that the audit was conducted in accordance with applicable standards and meets the auditing requirements of OMB Circular A-133. As a Federal awarding agency for CAU, we conducted a quality control review of the Deloitte and Clausell audit working papers for their audit of CAU. We focused our review on the following qualitative aspects of the audit: due professional care, planning, supervision, independence, quality control, internal controls, substantive testing, general and specific compliance testing, and the Schedule of Federal Awards of CAU. While the Department of Health and Human Services is the cognizant agency for CAU, the Office of Naval Research requested that we conduct a quality control review of the institution.

We reviewed the most recent peer review letter, November 27, 1995, issued by Marty I. Heller, Professional Corporation for Clausell. The peer review found that Clausell met the objectives of the quality control review standards established by the American Institute of Certified Public Accountants and that the standards were being complied with during the fiscal year ended July 31, 1995.

We reviewed the most recent peer review report, November 25, 1996, for Deloitte, issued by Ernst & Young LLP. The peer review found that Deloitte met the objectives of the quality control review standards established by the American Institute of Certified Public Accountants and that the standards were being complied with during the fiscal year ended March 31, 1996. However, recommendations for improvements were made in the areas of supervision and independence.

Scope and Methodology

We used the 1991 edition of the Uniform Quality Control Guide for Single Audits (the Guide) that was approved by the President's Council on Integrity and Efficiency as guidance for performing the quality control review procedures. The Guide is organized by the general and field work audit standards and the required elements of a single audit. The Guide is further divided into the substantive work performed during the audit of the financial statements and the specific program compliance testing for major programs. In addition, we supplemented the Guide to include additional review of transaction testing. Our review was conducted from August 11 through 15, and September 15 through 16, 1997.

We limited the scope of our quality control review to the audit working papers related to the financial statements and to major programs other than Head Start and Student Financial Aid. The expenditures against major programs, other than Head Start and Student Financial Aid, totaled approximately $15 million and accounted for 28 percent of total Federal award expenditures by CAU.

Results of Prior Quality Control Reviews

We have not performed a prior quality control review of Clausell. We identified two minor quality control review findings and recommendations at two Deloitte locations we visited from January 1, 1995, through July 31, 1997. We notified the affected offices, and no further action is necessary.

Background

The Inspector General Act of 1978, Public Law 95-452, prescribes the duties and responsibilities of that office. In implementing those responsibilities, the Inspector General is required 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 whose total annual expenditures

are $100,000 or more with respect to Federal financial assistance programs; to establish uniform requirements for audits of Federal financial assistance; to promote efficient and effective use of audit resources; and to ensure that Federal departments and agencies rely on and use the audit work done under the Act, to the maximum extent practicable.

The Single Audit Act Amendments of 1996, based on 12 years of experience under the 1984 Act, are intended to strengthen the usefulness of single audits by increasing the audit threshold from $100,000 to $300,000 in Federal financial assistance before an audit is required under the Act; by selecting programs to be audited on the basis of risk assessment rather than the amount of funds involved; and by improving the contents and timeliness of single audits. The Amendments also bring nonprofit organizations, previously covered by similar requirements in the OMB Circular A-133, under the Single Audit Act provisions.

The OMB Circular A-133 establishes the Federal audit and reporting requirements for nonprofit and educational institutions whose Federal awards are or exceed $100,000. It provides that an audit made in accordance with the Circular shall be in lieu of any financial audit required under individual Federal awards. An agency must rely on the audit to the extent that it provides the information and assurances that an agency needs to implement its overall responsibilities. The coordinated audit approach provides for the independent public accountant, Federal auditor, and other non-Federal auditors to consider each other's work in determining the nature, timing, and extent of their respective audit procedures. The Circular also requires that the cognizant agency obtain or conduct quality control reviews of selected audits made by non-Federal auditors and provide the results, when appropriate, to other interested organizations. The revised Circular was issued on June 24, 1997, to incorporate the changes in the Single Audit Act Amendments of 1996. Its provisions apply to audits of fiscal years beginning after June 30, 1996.

Discussion of Results

During our quality control review, we reviewed and took no exception to the working papers supporting the following reports and schedules prepared by Deloitte and Clausell.

Independent Auditors' Report. The auditor is required to obtain reasonable assurance about whether the financial statements are free of material misstatement. We reviewed the audit program and the testing of evidential matter to determine whether testing was sufficient, based on assessment of control risk, to warrant the conclusion reached and whether the working papers supported the conclusion.

Independent Auditors' Report on the Internal Control Structure Based on the Audit of the Financial Statements. The auditor is required to obtain an understanding of the internal control structure that is sufficient to plan the audit and to assess control

risk for the assertions embodied in the financial statements. We reviewed the audit program for the appropriate procedures, the working paper documentation, and the substantive testing performed.

Independent Auditors' Report on Compliance Based on the Audit of the Financial Statements. The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect on the determination of financial statement amounts. We reviewed the audit program for the appropriate procedures, the working paper documentation, its support, and the compliance tests performed.

Independent Auditors' Report on the Schedule of Federal Awards and Other Financial Assistance. The auditor is required to subject the schedule to the auditing 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. Our review was included in the steps of evaluation of the audit working papers related to the Independent Auditors' Report.

Independent Auditors' Report on the Internal Control Structure Used in Administering Federal Awards. The auditor is required to obtain an understanding of the internal control structure to assess control risk to determine whether the auditor intends to place reliance on the internal control structure. The auditor must perform tests of controls to evaluate the effectiveness of the design and operation of the policies and procedures in preventing or detecting material noncompliance, to review the system for monitoring subrecipients and obtaining and acting on subrecipient audit reports, and to determine whether controls are effective to ensure that direct and indirect costs are calculated and billed in accordance with the general requirements in the Compliance Supplement. We reviewed the audit program for the appropriate procedures, the working paper documentation, and the test of controls performed.

Independent Auditors' Report on Compliance With General Requirements When Material Noncompliance Is Identified. The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect on any of its major Federal programs. General requirements are those that could have a material effect on the recipient's financial statements including those prepared for Federal programs. The auditors' procedures were limited to those prescribed in the OMB Circular A-133 Compliance Supplement. We reviewed the audit program for the appropriate procedures, compared the audit program steps to those in the Compliance Supplement to make sure that all areas are audited, reviewed the working paper documentation and its support, reviewed the compliance tests performed, and reevaluated selected compliance items.

Independent Auditors' Qualified Opinion on Compliance With Specific Requirements Applicable to Major Programs - Noncompliance. The auditor is required to determine whether the recipient has complied with laws and regulations that

may have a direct and material effect on its major Federal programs. The requirements included types of services allowed or unallowed; eligibility; matching, level of effort, and/or earmarking requirements; special reporting requirements; and special tests and provisions. We reviewed the audit program for the appropriate procedures, compared the audit program steps to those in the Compliance Supplement to make sure that all areas are audited, reviewed the working paper documentation and its support, reviewed the compliance tests performed, and reevaluated selected compliance items.

Independent Auditors' Report on Compliance With Specific Requirements Applicable to Nonmajor Program Transactions. The auditor is required to issue a report on nonmajor programs that provides a statement of positive assurance on those items that were tested for compliance and negative assurance on those items not tested. If the auditor has not selected any nonmajor program transactions or if the entity has no nonmajor programs, no report is required. We ensured that, when the auditor had selected such transactions, they were tested for compliance with the specific requirements that apply to the individual transactions.

Schedule of Comments, Findings, Recommendations, and Questioned Costs. The auditor is not required to, but may report immaterial findings in the audit report or report them to the recipient in writing in a separate communication. The recipient is responsible for forwarding the findings to the Federal grantor agencies. We traced the findings in the working papers to the audit report to make sure that the report includes all findings identified in the working papers and that the findings are properly supported. We noted that there were 17 repeat audit findings that were not resolved from the prior year's audit. A complete list of all audit findings is in Enclosure 1.

Comments

Because this report contains a finding and recommendation, written comments are required. Deloitte & Touche LLP should provide their comments by November 30, 1997. If you have questions on this report, please contact Ms. Barbara Smolenyak, Program Director, at (703) 604-8761. The report distribution is in Enclosure 2.

Russell A. Rau
Assistant Inspector General
Policy and Oversight

Enclosures

Clark Atlanta University
Fiscal Year Ended June 30, 1996

Comments, Findings, Recommendations, and Questioned Costs **

General Requirements

Comment Number	Page No.	Description	Questioned Costs	Resolution Agency
1	42-43	Prior Audit Findings	N/A	HHS
2*	44-45	Cash Management	N/A	HHS
3*	46-47	Payroll Authorization	N/A	HHS
4*	48-49	Time and Effort Certifications	N/A	HHS
5*	50-51	Internal Controls Over Business and Financial Aid Offices	N/A	HHS/DoEd
6*	52-53	Federal Financial Reports	N/A	HHS
7	54-55	Equipment Policies and Procedures	N/A	HHS
8*	56-57	Journal Entries	N/A	HHS
9	58-59	Procurement Policies and Procedures	N/A	HHS
10*	60-61	Matching Requirements	N/A	HHS

Head Start Programs

Comment Number	Page No.	Description	Questioned Costs	Resolution Agency
11*	63-64	Child and Adult Care Food Program	N/A	USDA
12	65-66	Minimum Average Daily Attendance	N/A	HHS
13	67	Procurement Policies and Procedures	N/A	HHS
14*	68-69	Enrollment	N/A	HHS
15	70	Equipment Purchases	$28,243	HHS
16	71	Property Capitalization and Inventory	N/A	HHS
17	72	Matching Expenses	N/A	HHS

Student Financial Aid Programs

Comment Number	Page No.	Description	Questioned Costs	Resolution Agency
18*	74	Title IV Programs	N/A	DoEd
19*	75	Federal Work Study	$41,108	DoEd
20*	76	Federal Family Education Loans	N/A	DoEd

See footnotes and acronyms at the end of the table.

21	77	Promissory Notes	N/A	DOEd
22	78	Title IV Eligibility	N/A	DoEd
23*	79	Federal Family Education Loan	N/A	DoEd
24	80-81	Payment Summaries	N/A	DoEd
25	82-83	Eligibility Certifications	$4,860	DoEd
26	84-85	Grant Calculations	$1,950	DoEd
27*	86-87	Student Files	N/A	DoEd
28*	88-89	Perkins Loan Contributions	N/A	DoEd
29*	90	Perkins Loan Fund Procedures	N/A	DoEd
30*	91	Perkins Loan Promissory Notes	N/A	DoEd
31*	92	Perkins Loan Disbursements	N/A	DoEd
32*	93	Cost Sharing	N/A	NASA DOE DoD

Sponsored Programs

Comment Number	Page No.	Description	Questioned Costs	Resolution Agency
33	95-96	Fringe Benefit Costs	$56,142	HHS
34*	97-98	Federal Financial Reporting and Cash Management	N/A	NASA DoE DoEd HHS
35	99	Procurement Policies and Procedures	N/A	NASA DoEd
36	100	Fiscal and Project Managers	N/A	NASA DOE HHS

* Repeat finding from fiscal year ended June 30, 1995 report.
** These findings are reprinted in the Deloitte & Touche LLP financial statement audit report on Clark Atlanta University.

Acronyms

DoEd	Department of Education
DoE	Department of Energy
NASA	National Aeronautics and Space Administration
USDA	U.S. Department of Agriculture

Clark Atlanta University
Fiscal Year Ended June 30, 1996

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