Oversight Report

QUALITY CONTROL REVIEW OF
PRICEWATERHOUSECOOPERS LLP
STANFORD UNIVERSITY
FISCAL YEAR ENDED AUGUST 31, 1997

Report Number PO 99-6-008 September 8, 1999

Office of the Inspector General
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Acronyms

CFDA	Catalog of Federal Domestic Assistance
DoD	Department of Defense
NIH	National Institutes of Health
OMB	Office of Management and Budget
PwC	PricewaterhouseCoopers LLP

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SUBJECT: Quality Control Review of PricewaterhouseCoopers LLP
Stanford University
Fiscal Year Ended August 31, 1997
Report No. PO 99-6-008 (Project No. 9OA-9023)

Introduction

We are providing this report for your information. The San Jose, California, office of PricewaterhouseCoopers LLP (PwC) performed the Single Audit for Stanford University (the University). The audit is required by Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." For the fiscal year ended August 31, 1997, the University reported total Federal expenditures of $561,717,912, representing $54,331,576 for the Department of Defense (DoD) and $507,386,336 for other Federal agencies.

The PwC issued the Stanford University OMB Circular A-133 Audit Report on December 4, 1997. PwC issued an unqualified opinion on the University financial statements and the "Schedule of Federal and State Awards." The report on internal controls and compliance related to the financial statement audit noted no instances of noncompliance or material weaknesses required to be reported under generally accepted government auditing standards. The report on compliance and internal controls on major programs identified an instance of noncompliance required to be reported according to OMB Circular A-133. The finding relates to the classification of costs for computer equipment as a direct cost to a National Institutes of Health (NIH) grant. NIH is responsible for resolving this audit finding (see Enclosure 1).

Quality Control Review Results

In our opinion, the audit performed by PwC generally meets the applicable guidance and regulatory requirements of OMB Circular A-133 and its related Compliance Supplement, which incorporate generally accepted auditing standards and generally accepted government auditing standards.

Other Matters

The following comments are suggestions for improving the A-133 audit working paper documentation and report presentation to better serve the needs of Federal agencies and to avoid any potential issues of nonconformity with the requirements of Circular A-133. These issues were discussed at our exit conference. PwC management was responsive to our suggestions.

Internal Control Documentation. In obtaining an understanding of internal controls over compliance for major programs, auditors performed risk assessments for each of the compliance requirements for the research and development program. However, the working papers did not document an understanding of the five components (control environment, risk assessment, control activities, information and communication, and monitoring) of internal control for each compliance requirement as required by Circular A-133. An understanding of the five components was documented on an accounting application category basis (Cash Receipts, General Ledger, Investments, Contracts and Grants, Revenues, Disbursements, Payroll, Gift Processing, Plant Cycle, and Computer Controls) as part of the consideration of internal controls over financial reporting. To determine whether the auditors obtained an understanding of internal controls over compliance for major programs, we reviewed documentation of the accounting application category reviews and the compliance attributes tested. Although the categories reviewed sufficiently covered internal controls affecting Federal awards, the working paper documentation should include separate analyses of each of the five components of internal control for each applicable compliance requirement for each major program.

Additional Report Detail. Additional detail is needed in the auditee's "Schedule of Expenditures of Federal Awards" (the Schedule) and in the "Summary Schedule of Prior Audit Findings." The additional information should be included in future reports in the schedule or in a note to the schedule.

- Information on pass-through awards received by Stanford as a subrecipient did not include details indicating the source of the awards. Subreceipient awards were presented as a cumulative amount under the heading of "Miscellaneous Pass-through Awards." The Schedule included miscellaneous pass-through awards of $6,066,569 and $4,819,148 for the "Research and Development" cluster and "Other Federal Awards," respectively. Circular A-133 requires that at a minimum

the schedule should include the name of the pass-through entity and the identification number assigned by the pass-through entity.

- The Schedule identifies "Other Federal Awards" expenditures of $13,218,432 from the NIH collectively under one *Catalog of Federal Domestic Assistance* (CFDA) number. This amount represented multiple awards received under several different Federal programs, and each program should have been presented by its discrete Federal program CFDA number. Circular A-133 requires that the Schedule provide the total Federal awards expended for each individual Federal program and the CFDA number, or other identifying number when the CFDA information is not available.

- Additional comments are needed in the "Summary Schedule of Prior Audit Findings." The summary schedule contained two prior audit findings noted by the auditee as "Comment Resolved." However, there were no auditor comments on their assessment of the reasonableness of the auditee's schedule. Circular A-133 requires the auditor to follow up on prior audit findings, perform procedures to assess the reasonableness of the schedule of prior audit findings prepared by the auditee, and to report, as a current year finding, when the auditor concludes that the summary schedule materially misrepresents the status of prior audit findings. The summary schedule should include auditor comments addressing their assessment of the reasonableness of the auditee's statements on the status of prior audit findings.

Quality Control Review Objective

The objective of our quality control review was to ensure that the audit was conducted according to applicable standards and meets the auditing requirements of OMB Circular A-133. As the Federal cognizant agency for Stanford University, we conducted a quality control review of the PwC audit working papers for its audit of the University. We focused our review on the following qualitative aspects of the audit: auditor qualifications, independence, due professional care, quality control, planning, supervision, major program determinations, and the Schedule of Federal Awards.

We reviewed the most recent peer review letter, issued October 28, 1997, by Ernst & Young LLP. The peer review letter stated that the firm 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, 1997.

Scope and Methodology

We used a draft of the upcoming 1999 edition of the Uniform Quality Control Guide for A-133 Audits (the Guide) to perform our review. The final version of the Guide

will be 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 fieldwork audit standards and the required elements of a single audit. Our review was conducted from May 3 through 6, 1999, and covered areas related to the financial statements and the research and development program. We did not review compliance with requirements related to the other "Type A" programs, as defined by OMB Circular A-133. The other Type A program at Stanford University for FY 1997 was the Student Financial Aid program for the Department of Education.

Results of Prior Quality Control Reviews

Since June 1996, we have performed nine quality control reviews of Coopers & Lybrand LLP and one quality review of Pricewaterhouse LLP. We identified conditions resulting in quality control review findings and made recommendations at several locations. We notified the affected offices, and no further action is necessary.

Background

The Inspector General Act of 1978 prescribes the duties and responsibilities of that office. In implementing those responsibilities, the Inspectors General are 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 (the Act)) and the Single Audit Act Amendments of 1996 are intended to improve the financial management of states, local governments, and nonprofit organizations whose total annual expenditures of Federal awards are $300,000 or more; establish uniform requirements for audits of Federal financial assistance; promote efficient and effective use of audit resources; and ensure that Federal departments and agencies rely on and use the audit work done under the Act, to the maximum extent practicable.

The OMB Circular A-133 establishes the Federal audit and reporting requirements for nonprofit and educational institutions whose expenditures of Federal awards are or exceed $300,000 annually. The Circular provides that "An audit made in accordance with this part [Circular A-133, Subpart B – Audits] shall be in lieu of any financial audit required under individual Federal awards." Federal agencies must rely on the audit to the extent that it meets their individual needs. 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 Circular was issued on June 30, 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 prepared by PwC.

Report of Independent Accountants on Financial Statements and Supplemental Schedule of Federal and State Awards for the Year Ended August 31, 1997. The auditor is required to obtain reasonable assurance about whether the financial statements are free of material misstatement. In addition, the auditor is required to subject the supplemental schedule to auditing procedures that apply to the audit of the financial statements and to ensure that the amounts are fairly stated in relation to the financial statements. We reviewed the audit program and the testing of evidential matter to determine whether testing was sufficient, based on an assessment of control risk, to warrant the conclusion reached and whether the working papers supported the conclusion.

Report of Independent Accountants on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect in determining financial statement amounts. The auditors are also required to obtain an understanding of internal controls that is sufficient to plan the audit and to assess control risk. We reviewed the audit program for the appropriate procedures, the working paper documentation, and the results of the testing of controls.

Report of Independent Accountants on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133. 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. We reviewed the audit program for the appropriate procedures, ensured that the auditors considered each of the 14 requirements included in the Compliance Supplement, reviewed the working paper documentation and support, and reviewed the compliance tests performed.

Comments

If you have questions on this report, please contact Ms. Barbara Smolenyak at (703) 604-8761 or by e-mail at bsmolenyak@dodig.osd.mil. The report distribution is included as enclosure 2.

Donald E. Davis
Deputy Assistant Inspector General
for Audit Policy and Oversight

Enclosures

Part III- Federal Award Findings and Questioned Costs

Finding 97-1: Federal Direct Costs – Non-Salary, Excluding Travel

Context:

Total Questioned Costs:	***$ 285.54***
Total Sample in Dollars:	***$ 1,310,912.74***
Total Population:	***$ 177,114,160.00***

Criteria:

Direct costs are those which can be identified specifically with a particular sponsored project.

Reference:

OMB Circular A-21, Section D(1)

Condition, Effect and Cause:

A federally sponsored project was charged $285.54 for a computer zip drive and cartridges. There can be no assurance that the zip drive charged to this award is used only by students who are supported by this particular NIH grant.

Questioned Costs:

$285.54

Federal Program:

NIH RR01209-CFDA-Research and Development Cluster – 93.XXX

Recommendation:

We recommend the questioned costs of $285.54 be removed from the sponsored project and an adjustment be made to the award in the current year or a refund made to the sponsor.

Enclosure 1

Stanford University
Fiscal Year Ended August 31, 1997

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Enclosure 2

Evaluation Team Members

This report was prepared by the Financial, Performance, and Single Audits Division, Office of the Deputy Assistant Inspector General for Audit Policy and Oversight, DoD.

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