QUALITY CONTROL REVIEW REPORT

MARCH 31, 2008

QUALITY CONTROL REVIEW REPORT

OFFICE OF AUDITS

QUALITY CONTROL REVIEW OF THE MAYER, HOFFMAN, McCANN, P.C., OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133 AUDIT OF THE FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION FOR FISCAL YEAR ENDED JUNE 30, 2005

OFFICE OF INSPECTOR GENERAL

REPORT NO. IG-08-015 (ASSIGNMENT NO. A-08-007-00)
Acronyms

AICPA    American Institute of Certified Public Accountants
FY      Fiscal Year
GAGAS   Generally Accepted Government Auditing Standards
MHM    Mayer, Hoffman, McCann, P.C.
OMB   Office of Management and Budget
SEC   Securities and Exchange Commission

REPORT NO. IG-08-015
We are providing this report for your information and use. The audit firm Mayer, Hoffman, McCann, P.C. (MHM), located in Boca Raton, Florida, performed a single audit of the Florida Atlantic University Research Corporation (the Corporation) for the fiscal year ended June 30, 2005 (FY 2005). Office of Management and Budget (OMB) Circular No. A-133, “Audits of States, Local Governments, and Non-Profit Organizations,” requires these audits.

Background. The Corporation, a nonprofit, is a university direct-support organization established by the Florida Atlantic University (the University) in 1990. The Corporation was organized to promote, encourage, and provide assistance to the research activities of the University’s faculty, staff, and students. The Corporation has been granted rights and responsibilities for the development, protection, and commercial application of defined and selected intellectual property. In consideration of the Corporation’s efforts, it is entitled to a portion of royalties, license fees, and other revenues.

Quality Control Review Objectives. As the oversight audit agency for the Corporation, the NASA Office of Inspector General (OIG) performed a quality control review of the MHM audit of the Corporation for FY 2005. The objectives of our quality control review were to determine whether MHM had conducted the audit in accordance with generally accepted government auditing standards (GAGAS) and the auditing and reporting requirements of OMB Circular A-133 and its related Compliance Supplement (the Supplement). OMB issued the Supplement to assist auditors in meeting the requirements of OMB Circular A-133. Enclosure 1 contains details of the scope and methodology of our review, requirements for single audits, and the latest peer review of MHM. Enclosure 2 contains the results of the MHM audit of the Corporation for FY 2005.

Review Results. MHM’s audit work complied with GAGAS general standards, the fieldwork standards for financial audits, and the reporting standards for financial audits.
and OMB Circular A-133 reporting requirements with no exceptions. MHM issued an
unqualified opinion on the financial statements, Schedule of Expenditures of Federal
Awards, and major program compliance. MHM noted no matters involving internal
controls relating to financial statements or the major program that were considered
material weaknesses for FY 2005.

We appreciate the courtesies extended to the audit staff. For additional information on
this report, please contact Mr. Mark Jenson, Financial Statement Audits Director, at
202-358-0629. See Enclosure 3 for the report distribution. The review team members
are listed inside the back cover of this report.

signed

Evelyn R. Klemstine
Assistant Inspector General for Auditing

3 Enclosures
Scope and Methodology

We conducted a quality control review of the MHM audit of the Corporation for FY 2005 and of the resulting reporting package submitted to the Federal Audit Clearinghouse. We performed our review February 18–21, 2008, at the Boca Raton, Florida, office of MHM. For FY 2005, the Corporation reported total Federal expenditures of $1,464,841, all attributable to NASA.

As the oversight 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 MHM. We also discussed the audit with MHM 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 controls.

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 and auditor 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 controls 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.

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 controls 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

The American Institute of Certified Public Accountants (AICPA) Audit Guide, “Government Auditing Standards and Circular A-133 Audits,” May 2003, provides guidance on auditor responsibilities for conducting audits according to the Act and OMB Circular A-133. In general, the Audit Guide provides auditors with an understanding of
the unique planning, performance, and reporting considerations for single audits performed in compliance with GAGAS. In addition, the Audit Guide uses summary tables and detailed discussions to provide the auditor with an understanding of the additional GAGAS general, fieldwork, and reporting requirements, including the additional standards relating to quality control systems, continuing professional education, workpapers, audit follow-up, and reporting.

The Audit Guide emphasizes that, when planning an audit to meet the requirements of OMB Circular A-133, several factors should be considered in addition to those ordinarily associated with an audit of financial statements in accordance with generally accepted auditing standards and GAGAS. The factors include, but are not limited to, the following:

- Determining that the Schedule of Expenditures of Federal Awards is presented fairly in relation to the financial statements taken as a whole.
- Determining major programs for audit using a risk-based approach.
- Determining compliance requirements.
- Gaining an understanding of internal control over compliance for major Federal programs.
- Testing internal control over compliance for major programs.
- Determining compliance with laws, regulations, and the provisions of contracts or grant agreements pertaining to Federal awards that have a direct and material effect on each major program.
- Satisfying the additional requirements of the Act and OMB Circular A-133 for audit documentation, audit follow-up, and reporting.

**Latest Peer Review**

We reviewed the most recent peer review report on MHM, prepared by Davis, Kinard & Company, P.C., for the year ended June 30, 2005. The report, issued November 18, 2005, stated that the system of quality control for the accounting and auditing practice applied by MHM 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 AICPA. The peer review found that the MHM had complied with the quality control standards during the year ended June 30, 2005, providing the firm with reasonable assurance of complying with applicable professional standards. The peer review report identified no deficiencies in MHM’s system of quality control.
MHM Audit Report

MHM issued its report, dated January 11, 2006, on the financial statements and the Schedule of Expenditures of Federal Awards, for the Corporation. MHM reported that it had performed the audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in “Government Auditing Standards,” issued by the Comptroller General of the United States. It further stated that the financial statements presented fairly, in all material respects, the financial position of the Corporation as of June 30, 2005, and 2004, and the results of its operations and its cash flows for the years then ended. MHM also stated the opinion 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.

MHM Audit Report on Internal Control and Compliance and Other Matters

MHM’s “Report 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,” January 11, 2006, stated that MHM “noted no matters involving the internal control over financial reporting and [the Corporation’s] operation that we consider to be material weaknesses [and] no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.” However, MHM reported that it noted certain other matters that were reported to management in a separate letter dated January 20, 2006.

MHM Audit Report on Major Program Compliance and Internal Control

MHM’s “Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133,” January 11, 2006, stated MHM’s opinion that the Corporation complied, in all material respects, with the requirements applicable to each of its major programs for the year ended June 30, 2005. The report also stated that MHM noted no matters involving the internal control over compliance and its operation that MHM considered to be material weaknesses.
Independent Audit Firm

Mayer, Hoffman, McCann, P.C.
Mr. Michael Fahndrich, Shareholder

Audited Organization

Mr. Jack Ludin, Secretary, Florida Atlantic University Research Corporation

NASA Headquarters

Deputy Administrator
Chief of Staff
Chief Financial Officer
Assistant Administrator for Procurement
Assistant Administrator for Internal Controls and Management Systems

Non-NASA Federal Organizations

Office of Management and Budget
  Deputy Associate Director, Energy and Science Division
    Branch Chief, Science and Space Programs Branch
  Technical Manager, Office of Federal Financial Management
Government Accountability Office
  Director, NASA Issues, Office of Acquisition and Sourcing Management
Federal Audit Clearinghouse

Congressional Committees and Subcommittees, Chairman and Ranking Member

Senate Committee on Appropriations
  Senate Subcommittee on Commerce, Justice, Science, and Related Agencies
Senate Committee on Commerce, Science, and Transportation
  Senate Subcommittee on Space, Aeronautics, and Related Sciences
Senate Committee on Homeland Security and Governmental Affairs
House Committee on Appropriations
  House Subcommittee on Commerce, Justice, Science, and Related Agencies
House Committee on Oversight and Government Reform
  House Subcommittee on Government Management, Organization, and Procurement
House Committee on Science and Technology
  House Subcommittee on Investigations and Oversight
  House Subcommittee on Space and Aeronautics
Major Contributors to the Report:
   Mark Jenson, Director, Financial Statement Audits
   David Gandrud, Project Manager
   John Pacious, Auditor
ADDITIONAL COPIES

Visit www.hq.nasa.gov/office/oig/hq/audits/reports/FY08/index.html to obtain additional copies of this report, or contact the Assistant Inspector General for Auditing at 202-358-1232.

COMMENTS ON THIS REPORT

In order to help us improve the quality of our products, if you wish to comment on the quality or usefulness of this report, please send your comments to Ms. Jacqueline White, Director of Quality Assurance, at Jacqueline.White@nasa.gov or call 202-358-0203.

SUGGESTIONS FOR FUTURE AUDITS

To suggest ideas for or to request future audits, contact the Assistant Inspector General for Auditing. Ideas and requests can also be mailed to:

Assistant Inspector General for Auditing
NASA Headquarters
Washington, DC 20546-0001

NASA HOTLINE

To report fraud, waste, abuse, or mismanagement, contact the NASA OIG Hotline at 800-424-9183 or 800-535-8134 (TDD). You may also write to the NASA Inspector General, P.O. Box 23089, L’Enfant Plaza Station, Washington, DC 20026, or use http://www.hq.nasa.gov/office/oig/hq/hotline.html#form. The identity of each writer and caller can be kept confidential, upon request, to the extent permitted by law.