Additional Copies

To obtain additional copies of this report, contact the Secondary Reports Distribution Unit of the Analysis, Planning, and Technical Support Directorate at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932 or visit the Inspector General, DoD, Home Page at: WWW.DODIG.OSD.MIL.

Suggestions for Future Audits or Evaluations

To suggest ideas for or to request future audits or evaluations, contact the Planning and Coordination Branch of the Analysis, Planning, and Technical Support Directorate at (703) 604-8908 (DSN 664-8908) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

OAIG-AUD (ATTN: APTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

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.OSD.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

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>APA</td>
<td>Auditor of Public Accounts</td>
</tr>
<tr>
<td>CWM</td>
<td>College of William &amp; Mary</td>
</tr>
<tr>
<td>DoD</td>
<td>Department of Defense</td>
</tr>
<tr>
<td>GAS</td>
<td>Government Auditing Standards</td>
</tr>
<tr>
<td>OMB</td>
<td>Office of Management and Budget</td>
</tr>
<tr>
<td>VIMS</td>
<td>Virginia Institute of Marine Science</td>
</tr>
</tbody>
</table>
Commonwealth of Virginia  
Walter J. Kucharski  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, VA 23218

SUBJECT: Quality Control Review of The Commonwealth of Virginia,  
   Auditor of Public Accounts  
The College of William & Mary  
Fiscal Year Ended June 30, 1996  
Report No. PO98-6-012 (Project No. 8OA-9008.04)

Introduction

We are providing this report for your review and use. The Portsmouth, Virginia,  
office of the Commonwealth of Virginia, Auditor of Public Accounts (APA) performed  
the single audit for the fiscal year ended June 30, 1996, for the College of William &  
Mary (CWM), an educational institution and agency of the Commonwealth of Virginia,  
which includes the Virginia Institute of Marine Sciences (VIMS) and Richard Bland  
College. The audit was required by Office of Management and Budget (OMB)  
Circular A-128, "Audits of State and Local Governments." For the fiscal year ended  
June 30, 1996, CWM reported total Federal expenditures of $36,806,415, representing  
$1,990,378 for the Department of Defense (DoD) and $34,816,037 for other Federal  
agencies.

The Commonwealth of Virginia Single Audit Report is dated April 2, 1997. The  
auditors issued an unqualified opinion on the Schedule of Federal Assistance and a  
qualified opinion on specific compliance requirements for the Commonwealth of  
Virginia. The CWM financial statement audit report is dated May 9, 1997. The  
auditors issued an unqualified opinion on the financial statements and statements of  
persistent and negative assurance on individual reports on internal controls and  
compliance requirements for CWM.

The APA auditors issued a qualified positive assurance statement and a negative  
assurance statement on compliance with general requirements for the statewide Single
Audit Report. Qualified positive assurance means that, with respect to the items tested, except for certain instances of noncompliance, the results of the auditors' procedures disclosed no material instances of noncompliance. Negative assurance means that, with respect to the items not tested, nothing came to the auditors' attention that caused them to believe that the Commonwealth of Virginia had not complied in all material respects.

The APA also obtained an understanding of the internal controls related to the financial statements and Federal awards at CWM. The financial statement audit report describes the auditors' scope of work in obtaining that understanding and in assessing control risk.

Quality Control Review Results

The audit performed by APA meets the applicable guidance and regulatory requirements in the OMB Circular A-128 and its related Compliance Supplement, which incorporate the Government Auditing Standards and generally accepted auditing standards.

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 met the auditing requirements of OMB Circular A-128. As the Federal cognizant agency for CWM, we conducted a quality control review of the APA audit working papers that focused 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 Assistance.

The results of most recent peer review APA, dated April 15, 1997, performed by the National State Auditors Association found that APA met the objectives of the quality control review standards established by the National State Auditors Association and that the standards were being complied with during the fiscal year ended February 28, 1997.

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. 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 audit work performed during the audit of
the financial statements and the specific program compliance testing for major programs. Our review was conducted from February 23 through 25, 1998.

We limited the scope of our quality control review to the audit working papers related to the financial statements and nonmajor programs. For the fiscal year ended June 30, 1996, CWM did not have a major program other than student financial aid. Nonmajor programs totaled about $14 million and accounted for 38 percent of the total Federal award expenditures at CWM.

Results of Prior Quality Control Reviews

We have not performed a prior quality control review of APA.

Background

The Inspector General Act of 1978, Public Law 95-452, as amended, 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 for Federal financial assistance programs; 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 performed in accordance with 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 1996 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 Single Audit Act Amendments of 1996 also includes nonprofit organizations that were previously covered by similar requirements in the OMB Circular A-133.

The OMB Circular A-128 establishes the Federal audit and reporting requirements for state and local governments whose Federal awards are $100,000 or more. The Circular provides that an audit made in accordance with the Circular shall be instead of any financial audit required under individual Federal awards. An agency must rely on the audit to provide the information and assurances that it needs to perform its overall
responsibilities. The coordinated audit approach encourages the independent public accountant, the Federal auditor, and 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. OMB Circular A-128 was rescinded and incorporated into a revised OMB Circular A-133, which was issued on June 24, 1997. The new OMB Circular A-133 incorporates the changes in the Single Audit Act Amendments of 1996. Its provisions apply to audits of fiscal years 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:

Independent Auditor’s Report on Financial Statements. The auditor is required to obtain reasonable assurance about whether the financial statements are free of material misstatement. We reviewed the audit program and tests 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.

Report on Internal Control Structure and Compliance With Laws and Regulations. 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. The auditor is also 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, supporting documentation, and the compliance tests performed.

During our quality control review, we reviewed and took no exception to the CWM working papers supporting the following reports included in the Commonwealth of Virginia Single Audit Report:

Report on the Internal Control Structure in Accordance With Government Auditing Standards. 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 at CWM.
Report on Compliance Based on the Audit of the General Purpose 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 on the determination of financial statement amounts. We reviewed the audit program for the appropriate procedures, the working paper documentation, supporting documentation, and the compliance tests performed at CWM.

Independent Auditor's Report on the Schedules of Federal 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 Auditor's Report on Financial Statements at CWM.

Single Audit Report on the Internal Control Structure Used in Administering Federal Assistance Programs. 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 for the CWM portion of the statewide Single Audit.

Single Audit Report on Compliance for Federal Assistance Programs. This report incorporates compliance with general requirements; specific requirements applicable to major programs; and requirements applicable to nonmajor programs. 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. Specific requirements include types of services allowed or disallowed; eligibility; matching, level of effort, and/or earmarking requirements; special reporting requirements; and special tests and provisions. The auditor's procedures are 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 were audited, reviewed the working paper documentation and its support, and reviewed the compliance tests performed for the CWM portion of the statewide Single Audit.
Schedule of Findings and Questioned Costs. The auditor is not required to, but may report, immaterial findings in the audit report to the recipient in a separate written communication. The recipient is responsible for forwarding the findings to the Federal grantor agencies. We traced the findings in the working papers to the statewide Single Audit Report to make sure that the report includes all findings identified in the CWM working papers and that the findings are properly supported. APA noted no repeat findings at CWM. A complete list of all audit findings at CWM is in Enclosure 1.

Comments

Because this report contains no findings or recommendations, written comments are not required. We appreciate the courtesies extended during our review. 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.

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

Enclosures
<table>
<thead>
<tr>
<th>Audit Report Page No.</th>
<th>Description</th>
<th>Questioned Costs</th>
<th>Resolution Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>173</td>
<td>Improve Internal and System Controls</td>
<td>NA*</td>
<td>Department of Defense</td>
</tr>
<tr>
<td></td>
<td>Over the Personnel and Payroll Functions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>176</td>
<td>Review User Access and Test Software Purchases and Upgrades</td>
<td>NA*</td>
<td>Department of Education</td>
</tr>
<tr>
<td></td>
<td>for Financial Aid System</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Not Applicable.
The College of William & Mary  
Fiscal Year Ended June 30, 1996

Distribution List

Board of Visitors  
The College of William & Mary  
Post Office Box 8795  
Williamsburg, VA 23187-8795

Director, Defense Research and Engineering  
Office of the Under Secretary of Defense for Acquisition & Technology  
3030 Defense Pentagon  
Washington, DC 20301-3030

Office of Naval Research  
University Business Affairs  
Indirect Costs - ONR 242  
800 North Quincy Street  
Arlington, VA 22217

Department of the Air Force  
Accounting and Banking Directorate  
Office of the Assistant Secretary  
Attn: Mr. Steve Roebuck SAF/FMPB  
1130 Air Force Pentagon Room 4C239  
Washington, DC 20330-1130

Defense Advanced Research Projects Agency  
Director, Contracts Management Office  
Attn: Mr. R. Timothy Arnold  
3701 N. Fairfax Drive  
Arlington, Virginia 22203-1714

Director, Defense Procurement  
Office of the Under Secretary of Defense for Acquisition & Technology  
3060 Defense Pentagon  
Washington, DC 20301-3060

Department of the Navy  
Comptroller of the Navy (NCB-53)  
Pentagon, Room 2B340  
Washington, DC 20350-1100

Department of the Army  
Deputy Assistant Secretary of the Army for Financial Operations  
Attn: Audit Liaison (SAFM-FOI)  
101 Army Pentagon Room 3E575  
Washington, DC 20310-6178

Department of Commerce  
Office of the Inspector General  
Atlanta Regional Office of Audits  
401 W. Peachtree Street, NW, Suite 2342  
Atlanta, GA 30308

Department of Education  
Regional Inspector General for Audit  
Office of the Inspector General  
3535 Market Street, Room 16280  
Philadelphia, PA 19104

Department of Energy  
Director, Financial Audit Division  
Office of the Inspector General  
1000 Independence Avenue SW  
Washington, DC 20585

Department of Health and Human Services  
National Audit Managers-Non-Federal Audits  
Office of the Inspector General  
National External Audit Resources  
Lucas Place  
323 West 8th Street, Room 514  
Kansas City, MO 64105

Department of Interior  
Director of External Audits  
Office of the Inspector General  
1849 C Street, NW, Mail Stop 5341-MIB  
Washington, DC 20240
Distribution List

National Science Foundation
Office of the Inspector General
Assistant Inspector General for
External Audit
4201 Wilson Blvd., Room 1135
Arlington, VA 22230

National Aeronautics and Space
Administration
Assistant Inspector General for Auditing
Office of the Inspector General
1100 Pennsylvania Avenue, NW, Rm 801
Washington, DC 20506
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.

Barbara E. Smolenyak
Donald D. Steele
Andrew Katsaros
Janet C. Johnson
INTERNET DOCUMENT INFORMATION FORM


B. DATE Report Downloaded From the Internet:  02/23/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #):  OAIG-AUD (ATTN: AFTS Audit Suggestions) Inspector General, Department of Defense 400 Army Navy Drive (Room 801) Arlington, VA  22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by: DTIC-OCA, Initials: _VM_ Preparation Date 02/23/99

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.