

*O*versight
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QUALITY CONTROL REVIEW OF DELOITTE & TOUCHE, LLP,
AND DEFENSE CONTRACT AUDIT AGENCY FOR OFFICE OF
MANAGEMENT AND BUDGET CIRCULAR A-133
AUDIT REPORT OF PENNSYLVANIA STATE UNIVERSITY,
FISCAL YEAR ENDED JUNE 30, 1999

Report Number D-2001-6-005

May 1, 2001

Office of the Inspector General
Department of Defense

Form SF298 Citation Data

Report Date <i>("DD MON YYYY")</i> 01May2001	Report Type N/A	Dates Covered (from... to) <i>("DD MON YYYY")</i>
Title and Subtitle Quality Control Review of Deloitte & Touche, LLP, and Defense Contract Audit Agency for Office of Management and Budget Circular A-133 Audit Report of Pennsylvania State University, Fiscal Year Ended June 30, 1999		Contract or Grant Number
		Program Element Number
Authors		Project Number
		Task Number
		Work Unit Number
Performing Organization Name(s) and Address(es) OAIG-AUD (ATTN: AFTS Audit Suggestions) Inspector General, Department of Defense 400 Army Navy Drive (Room 801) Arlington, VA 22202-2884		Performing Organization Number(s) D-2001-6-005
Sponsoring/Monitoring Agency Name(s) and Address(es)		Monitoring Agency Acronym
		Monitoring Agency Report Number(s)
Distribution/Availability Statement Approved for public release, distribution unlimited		
Supplementary Notes		
Abstract We conducted a quality control review of the Deloitte & Touche, LLP, and DCAA audit of the Penn State University for the fiscal year ended June 30, 1999, and the resulting reporting submission to the Single Audit Clearinghouse received on April 12, 2000. We performed our review 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, revised June 24, 1997. The Guide is the approved checklist of the President's Council on Integrity and Efficiency for performing the quality control review procedures. Our review was conducted from February 2001 through April 2001 and covered areas related to the financial statements and one major program, research and development. In conducting the review, we reviewed all working papers prepared by the auditors, discussed the audit with the auditors and Penn State cognizant personnel, and retested selected audit procedures.		
Subject Terms		

Document Classification unclassified	Classification of SF298 unclassified
Classification of Abstract unclassified	Limitation of Abstract unlimited
Number of Pages 9	

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Acronyms

DCAA
OMB

Defense Contract Audit Agency
Office of Management and Budget

May 1, 2001

Controller
Pennsylvania State University

Partner-in-Charge
Deloitte & Touche, LLP

Director
Defense Contract Audit Agency

SUBJECT: Report on Quality Control Review of Deloitte & Touche, LLP, and
Defense Contract Audit Agency for Office of Management and Budget
Circular A-133 Audit Report of Pennsylvania State University,
Fiscal Year Ended June 30, 1999
Report No. D2001-6-005 (Project No. D2001-OA-0075)

We are providing this report for your information. The firm of Deloitte & Touche, LLP, (Deloitte & Touche) and the Defense Contract Audit Agency (DCAA), performed the single audit for the Pennsylvania State University (Penn State), a non-profit land grant university located in State College, Pennsylvania. The audit is required by the Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" (Circular A-133). Penn State expended approximately \$294 million against Federal awards, representing \$88 million for the DoD and \$206 million for other Federal agencies in the fiscal year ended June 30, 1999.

Background. On October 8, 1999, Deloitte & Touche issued its financial statement audit report with an unqualified opinion. Included in the financial statement audit report was a Circular A-133 compliance report on the Schedule of Expenditures of Federal Awards. Also on October 8, 1999, Deloitte & Touche issued a report on the compliance with requirements applicable to the major Federal programs (excluding the Research and Development program cluster) at Penn State. DCAA issued its report on the Research and Development program cluster on March 7, 2000.

Quality Control Review Objective. As the Federal cognizant agency for Penn State, the Office of the Inspector General, DoD, performed a quality control review to determine whether the FY 1999 report that Penn State submitted to the Single Audit Clearinghouse met the applicable reporting standards and whether Deloitte & Touche and DCAA conducted the audit as required by applicable standards and the Circular A-133. See Appendix A for a discussion of the scope and single audit requirements.

Review Results. Deloitte & Touche and DCAA complied with applicable standards and the Circular A-133 in performing the audit of Penn State for the fiscal year ended June 30, 1999. Additionally, we determined that Penn State met applicable standards for its report submission to the Single Audit Clearinghouse.

Because this report contains no recommendations, no written response is required. However, if you choose to comment, please provide comments by June 1, 2001.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Martin T. Heacock at (703) 604-8756 (DSN 664-8756) (mheacock@dodig.osd.mil) or Mr. Wayne C. Berry at (703) 604-8789 (DSN 664-8789) (wberry@dodig.osd.mil). See Appendix B for the report distribution. The evaluation team members are listed inside the back cover.



Patricia A. Brannin

Director

Audit Policy and Oversight Directorate

Appendix A. Quality Control Review Process

Scope and Methodology

We conducted a quality control review of the Deloitte & Touche, LLP, and DCAA audit of the Penn State University for the fiscal year ended June 30, 1999, and the resulting reporting submission to the Single Audit Clearinghouse received on April 12, 2000. We performed our review 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, revised June 24, 1997. The Guide is the approved checklist of the President’s Council on Integrity and Efficiency for performing the quality control review procedures. Our review was conducted from February 2001 through April 2001 and covered areas related to the financial statements and one major program, research and development.

In conducting the review, we reviewed all working papers prepared by the auditors, discussed the audit with the auditors and Penn State cognizant personnel, and retested selected audit procedures.

Prior Quality Control Reviews

Inspector General, DoD

PO-97-055, “Clausell & Associates and Deloitte & Touche LLP, Clark Atlanta University, Fiscal Year Ended June 30, 1996,” September 30, 1997.

PO-97-036, “Deloitte and Touche LLP, Oregon Graduate Institute of Science and Technology, Fiscal Year Ended June 30, 1996,” June 30, 1997.

Single Audit Requirements

The Circular A-133 establishes policies to guide implementation of the Single Audit Act of 1996 (Public Law 98-502) amendments and provides an administrative foundation for uniform audit requirements for non-Federal entities that administer Federal awards. In addition, Circular A-133 serves to ensure that Federal departments and agencies rely on and use the audit work to the maximum extent practicable. To meet the intent of the law and Circular A-133, a complete reporting package on each single audit is submitted to the Single Audit Clearinghouse from the auditee (non-Federal entity) that includes the following:

- Data collection form certified by the auditee that the audit was completed in accordance with the Circular A-133;

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- Financial statements and related opinion;
 - Schedule of Expenditures of Federal Awards and related opinion;
 - Report on internal controls over compliance and on compliance with laws, regulations, and the provisions of contracts or grant agreements, and related opinion on compliance of major programs; and
 - Schedule of Findings and Questioned Costs.

OMB also issues a Compliance Supplement (the Supplement). The Supplement assists the auditors in determining the audit scope of the Circular A-133 requirements for review of internal control. For each compliance requirement, the Supplement describes the objectives of internal control and certain characteristics that when present and operating effectively may ensure compliance with program requirements. The Supplement gives examples of the common characteristics for the five components of internal controls (control environment, risk assessment, control activities, information and communication, and monitoring) for each compliance requirement. The following 14 compliance requirements applicable to the various Federal programs are identified in the Supplement:

- | | | | |
|----|--|----|---|
| A. | Activities Allowed/Unallowed * | H. | Period of Availability of Federal Funds * |
| B. | Allowable Costs/Cost Principles * | I. | Procurement and Suspension and Debarment * |
| C. | Cash Management * | J. | Program Income * |
| D. | Davis-Bacon Act | K. | Real Property Acquisition/Relocation Assistance |
| E. | Eligibility of Federal Funds | L. | Reporting * |
| F. | Equipment and Real Property Management * | M. | Subrecipient Monitoring * |
| G. | Matching, Level of Effort, Earmarking * | N. | Special Tests and Provisions * |

* Identifies those compliance requirements applicable to Penn State

Appendix B. Report Distribution

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