Oversight Report

QUALITY CONTROL REVIEW OF THE COMMONWEALTH
OF VIRGINIA
AUDITOR OF PUBLIC ACCOUNTS
THE COLLEGE OF WILLIAM & MARY
FISCAL YEAR ENDED JUNE 30, 1996

Report Number PO 98-6-012 May 21, 1998

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Department of Defense

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Acronyms

APA	Auditor of Public Accounts
CWM	College of William & Mary
DoD	Department of Defense
GAS	Government Auditing Standards
OMB	Office of Management and Budget
VIMS	Virginia Institute of Marine Science

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May 21, 1998

Commonwealth of Virginia
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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 positive 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.

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

Enclosures

The College of William & Mary
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 1996

Audit Report Page No.	Description	Questioned Costs	Resolution Agency
173	Improve Internal and System Controls Over the Personnel and Payroll Functions	NA*	Department of Defense
176	Review User Access and Test Software Purchases and Upgrades for Financial Aid System	NA*	Department of Education

* Not Applicable.

Enclosure 1

The College of William & Mary
Fiscal Year Ended June 30, 1996

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The College of William & Mary
Fiscal Year Ended June 30, 1996

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