

August 10, 2006



# Oversight Review

Report on Quality Control Review of the  
FY 2004 Single Audit of American Society  
for Engineering Education  
(Report No. D-2006-6-005)

Department of Defense  
Office of the Inspector General

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### **Acronyms**

AICPA	American Institute of Certified Public Accountants
ASEE	American Society for Engineering Education
DCAA	Defense Contract Audit Agency
GAS	Government Auditing Standards
OIG	Office of Inspector General
OMB	Office of Management and Budget



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
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ARLINGTON, VIRGINIA 22202-4704

AUG 10 2006

Board of Directors  
American Society for Engineering Education

Principal in Charge  
Arlington Office  
LarsonAllen, LLP

**SUBJECT:** Report on Quality Control Review of the FY 2004 Single Audit of American Society for Engineering Education (Report No. D-2006-6-005)

We are providing this report for your information and use. As the oversight Federal agency for the single audit of the American Society for Engineering Education (ASEE), we performed a quality control review of the Langan Associates, PC, FY 2004 single audit report and supporting work papers. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," (OMB Circular A-133) requires the audit.

**Background.** ASEE is a nonprofit organization to further education in engineering and engineering technology. The organization develops policies and programs that enhance professional opportunities for engineering faculty members, and promotes activities that support increased student enrollments in engineering and engineering technology colleges and universities. ASEE expended \$30.7 million in Federal awards during the fiscal year ended September 30, 2004. Of the \$30.7 million, \$29.7 million was for DoD fellowship programs.

**Quality Control Review Objective.** The objectives of the review were to determine whether Langan Associates, PC, conducted the audit according to Government Auditing Standards (GAS) and the auditing and reporting requirements of OMB Circular A-133. The scope and methodology for the review is at Appendix A.

**Review Results.** The Langan auditors did not meet the requirements of OMB Circular A-133 and GAS. They did not adequately plan, execute, and document the FY 2004 single audit (findings A through D). As a result, Federal agencies and pass-through entities cannot rely on the audit report for assurance that ASEE is managing Federal awards in compliance with laws, regulations, and award provisions.

ASEE generally complied with the reporting requirements of OMB Circular A-133, except that the Schedule of Expenditures of Federal Awards did not clearly identify pass-through awards received as a subrecipient (finding E). As a result, the Langan auditors did not properly complete the Data Collection Form.

We recommend that the FY 2004 single audit be re-performed at no additional cost to the Government.

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**Management Comments and APO Response.** Langan Associates, PC, was acquired by Larson, Allen, Weishair & Co., LLP, (LarsonAllen) effective May 1, 2006. LarsonAllen management concurred with the recommendation to redo the FY 2004 single audit at no additional costs to address all reported findings though they believed that the audit met minimum documentation requirements to demonstrate compliance with professional standards and OMB Circular A-133 audit requirements. However they did not provide additional information for our review to cause us to change our conclusions. We will perform a follow-up review to determine the adequacy of the re-performed audit procedures. Comments from the Chief Financial Officer, American Society for Engineering Education were responsive. Management comments and the evaluation responses are discussed in the recommendation section and are included in its entirety at the end of this report.

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## Findings

### **Finding A. Review of Internal Control and Compliance over Financial Reporting.**

The Langan auditors did not adequately obtain an understanding of internal control over financial reporting for the FY 2004 single audit. The auditors did not document who they interviewed at ASEE, and although they checked positive responses to a checklist on internal controls, they did not document descriptions of any procedures or processes in place at ASEE for the four components of internal control to support the responses. In addition, the auditors did not perform audit procedures for the fifth component of internal control for Control Activities to determine whether ASEE had the policies and procedures to ensure that the necessary actions are taken to address risks to achieving ASEE's objectives. The auditors also did not obtain an understanding of internal control over compliance with contract provisions and laws and regulations that could have a direct and material effect on the determination of financial statement amounts.

GAS, which incorporates the American Institute of Certified Public Accountants auditing standards, requires that in obtaining an understanding of controls that are relevant to audit planning, the auditor should perform procedures to obtain sufficient knowledge about the design of the relevant controls for each of the five internal control components and determine whether they have been placed in operation. In making a judgment about the understanding of internal control necessary to plan the audit, the auditor should also consider information system control risks that could result in misstatements. The auditor should document the understanding of the entity's internal control obtained to plan the audit.

The auditors also did not gain an understanding of the information system for financial reporting (the financial reporting system) for the accounts or transaction class determined to be significant. An account or transaction class is considered significant based on some of the following factors: 1) relative significance of the account or related transactions to the overall financial statements; 2) volume of transactions flowing through the account during the period; and 3) the susceptibility of the account to fraud, including both misappropriation of assets and fraudulent financial reporting. The auditors considered the following accounts to be significant:

- Cash
- Investments
- Support and related receivables
- Program service fees, revenue, and receivables
- Expenses and accounts payable
- Net assets
- Payroll
- Federal grant programs

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After determining which accounts were significant, the auditors were required to document their understanding of the flow of information through the financial reporting system for each account or audit area. Although the auditors noted “Not Applicable” on their audit planning form for internal controls, and thus did not obtain an understanding of the information flow through the financial reporting system, they concluded that the system provided reasonable assurance that the accounting records were complete and included all significant transactions. We were unable to determine whether the conclusions in the auditors’ report on internal control and compliance over financial reporting, based on the audit of the financial statements, can be relied upon by Federal agencies.

**Finding B. Review of Major Federal Programs.** The Langan auditors did not perform adequate audit procedures for internal control and compliance and did not report a noncompliance for the major Federal programs.

**Review of Internal Control over Compliance.** The Langan auditors did not obtain an understanding of the five components of internal control for each of the applicable compliance requirements for the major Federal programs and did not plan or perform the testing of internal control to support a low assessed level of control risk.

OMB Circular A-133 requires the auditor to obtain an understanding of internal control over compliance for Federal programs sufficient to plan the audit to support a low assessed level of control risk. OMB Circular A-133 also requires the auditor to plan the testing of internal control over compliance for the major Federal programs to support a low assessed level of control risk and to perform the testing of internal controls as planned. If internal control is deemed likely to be ineffective, the auditor has to assess risk at the maximum and consider whether any additional compliance tests are required and report this as a reportable condition, including whether such condition is a material weakness, as part of the audit findings. The AICPA Audit Guide states that the auditor should document his or her understanding of the auditee’s internal control and the basis for his or her conclusions about the assessed level of control risk. If the auditor has not performed tests of controls relevant to certain requirements or programs, the auditor should document the rationale for omitting such tests.

According to the audit supervisor, the audit approach for the audit of major Federal programs was the same as the audit approach taken for the audit of the financial statements, which placed minimal reliance on internal controls and assessed risk at the maximum as the basis for not testing internal controls. The auditors assessed control risk at the maximum for the financial statement audit because they believed that the cost of evaluating the effectiveness of internal control would exceed the savings from reduced substantive testing. The auditors failed to recognize that although control risk can be assessed at the maximum under a financial statement audit because the auditor believes that evaluating the effectiveness of internal control is inefficient, the auditor cannot apply this rationale to an audit of the major Federal program. Under an audit of the major Federal program, the auditor can only assess risk at the maximum if internal controls are deemed likely to be ineffective based on the understanding and test of controls not because evaluating their effectiveness would be inefficient.

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**Review of Compliance with Program Requirements.** The Langan auditors did not adequately perform and document the audit procedures to test compliance with the compliance requirements determined to be applicable by the auditors for the FY 2004 single audit.

GAS requires that work papers contain sufficient information to enable an experienced auditor with no previous connection with the audit to ascertain the evidence that supports an auditor's significant conclusions and judgments. Work papers should contain objectives, scope, and methodology, as well as any sampling criteria used. The work papers should also document the work performed, including descriptions of transactions and records examined, that would enable an experienced auditor to examine the same transactions and records.

**Activities Allowed or Unallowed and Allowable Costs/Cost Principles.** The auditors did not adequately document the work performed to provide sufficient evidence to support their opinion on compliance with the Activities Allowed or Unallowed and the Allowable Costs/Cost Principles compliance requirements. Of the \$30.7 million that ASEE received in Federal awards for FY 2004, approximately \$28 million was used to pay participant stipends and tuition expenses. Although the auditors selected transactions from stipends and tuition expenses, among other expenses, to test compliance, the documentation for the testing did not include descriptions of the audit procedures performed, the specific criteria used to determine allowability, or the documentation reviewed to support their conclusions. As a result, we could not assess the adequacy of the audit procedures performed.

**Cash Management.** The auditors performed some procedures to test compliance with Cash Management by determining whether interest earned was returned to the Federal government. However, the auditors did not perform any audit procedures to determine whether there were any established procedures to minimize the time elapsing between the drawdown and disbursement of funds or if the established procedures were followed as specified in the Compliance Supplement.

**Eligibility.** The auditors did not perform adequate audit procedures to test compliance with the Eligibility compliance requirement. In addition, the documentation did not provide specific information on the audit procedures they performed to test compliance with the requirement. Although the documentation listed certain minimum application requirements, such as the application form, school transcripts, research proposal, reference evaluation forms, and graduate record examinations, it did not describe the test objectives that the auditors were trying to achieve. Based on the information in the documentation, it appears that the auditors were only verifying whether the approved applicants had all of the required documents in their application package; this procedure alone is insufficient for the auditors to determine whether the approved applicants are indeed eligible and to conclude that ASEE is in compliance with the requirement. The auditors' compliance testing did not include the review criteria that the ASEE review panel used to screen the applicants for eligibility, nor did it include testing procedures to determine ASEE's compliance in ensuring that approved applicants continue to be eligible in subsequent years.

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**Period of Availability.** The auditors did not perform adequate audit procedures to test compliance with the Period of Availability compliance requirement. The audit documentation did not describe audit procedures performed or the documentation reviewed to support their conclusion that Federal funds were used during the authorized period of availability. In addition, the auditors referred to the substantive testing performed for the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and the Eligibility compliance requirements as evidence of their compliance testing for the Period of Availability compliance requirement. Because the auditors judgmentally selected transactions from the major Federal programs to test for allowable costs and eligibility, it is inappropriate for them to use the same transactions to test the Period of Availability compliance requirement without performing a further analysis of the transactions. The auditors should have determined whether the transactions selected were appropriate for testing the objectives of the period of availability requirement. For example, transactions from contracts or grants where work was to be completed by fiscal year end should have been selected to be able to test to the attributes of the requirement.

**Reporting.** The auditors did not perform adequate audit procedures to test and document compliance with the Reporting compliance requirement. Even though the auditors indicated that they performed compliance testing on the financial reports by documenting that they traced the expenses back to the general ledger, there was no further description of which expenses were reviewed or which general ledger accounts the expenses were traced to.

In addition, the auditors documented that compliance testing was not required on the performance and special reports because the reports did not contain quantifiable data as stated in the Compliance Supplement. However, our review of the contracts with the Air Force showed that some of the required nonfinancial reports contain quantifiable data that the auditors should have tested for compliance. Some of these reports require information such as the number of students who have accepted or rejected offers, student academic progress reports, a list of fellows who completed the program tenure or whether they intend to complete their post doctorate degrees, and a list of fellows who dropped out of the program.

**Finding C. Reporting a Noncompliance Issue.** During their audit, the auditors found that ASEE transferred \$550,000 in stipend payments for contract 99-C-0054 to contract 02-C-0041 because the funding period for contract 99-C-0054 had expired. Correspondence between ASEE and the funding agency showed that the funding agency advised ASEE that the \$550,000 expense belonged to contract 99-C-0054 because the participants who received the stipends were not budgeted under the new contract 02-C-0041. However, the auditors concluded that this did not result in a finding because both contracts had the same Catalog of Federal Domestic Assistance number and were therefore considered the same program for A-133 purposes. The auditors also documented that ASEE planned to immediately correct the error in the accounting records and financial reports filed with the funding agency.

Both contracts having the same Catalog of Federal Domestic Assistance number is not a valid reason for not reporting this as a finding. While both contracts fall under the same Federal assistance program, each contract has its own requirements and funding authority. The auditors should have reported the noncompliance as a finding on the Schedule of Findings and Questioned Costs for violating contract terms and conditions by using funds from one contract to cover expenses for another contract. Furthermore, there was no documentation to indicate that the auditors performed additional audit procedures



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to determine whether this was an isolated incident of mischarging or whether it was a broader systemic problem, and what impact that may have had on their audits of the financial statements and the major Federal programs.

**Finding D. Review of the Summary Schedule of Prior Audit Findings.** The Langan auditors did not perform adequate audit procedures to assess the reasonableness of the Summary Schedule of Prior Audit Findings. Although there was no central working paper to show the audit coverage on the Summary Schedule of Prior Audit Findings, the audit supervisor prepared a document referencing different work papers as evidence that the auditors performed those procedures.

A finding from the previous year stated that ASEE did not have procedures in place to ensure that it is not conducting business with vendors that have been debarred or suspended by the Federal government. The audit supervisor referred to their compliance testing for the Procurement, Suspension and Debarment compliance requirement where the auditors documented that ASEE reviewed the Government list of debarred and suspended contractors and had a contractor provide a written statement declaring that they are not debarred from doing Federal work. Although the compliance testing in the current year showed that ASEE complied with the requirement, the auditors did not determine whether ASEE established written policies to ensure that responsible staff follow the procedures on a regular basis to prevent doing business with debarred or suspended contractors.

The other finding from the previous year stated that ASEE did not submit an indirect cost proposal or request an extension within 6 months after the close of the 2002 fiscal year; however, none of the work papers referred to by the audit supervisor provided any support that the auditors performed audit procedures to assess the reasonableness or status of corrective action taken. Some documentation in the work paper files shows that ASEE requested and was approved an extension by the administrative contracting officer for submitting the FY 2003 incurred cost submission. Nevertheless, the auditors did not perform audit procedures to determine whether ASEE had established written policies and procedures to ensure that the incurred cost submissions are submitted timely to avoid frequent extension requests or that extension requests be requested within 6 months.

**Finding E. Schedule of Expenditures of Federal Awards and Data Collection Form.** ASEE did not prepare the Schedule of Expenditures of Federal Awards in accordance with the requirements of OMB Circular A-133. ASEE did not clearly present Federal awards received as a subrecipient as pass-through funds on its FY 2004 Schedule of Expenditures of Federal Awards. Consequently, the Langan auditors did not properly complete Part III, Item 9, of the Data Collection Form because all Federal awards were indicated as direct awards.

**Other Matters of Interest.** The Langan auditors did not coordinate the FY 2004 ASEE single audit with the Defense Contract Audit Agency (DCAA). Between November 2003 and March 2004, DCAA issued six final reports to ASEE on the billing and accounting systems, incurred cost audit, floorcheck, provisional billing rates, and a modified financial condition risk assessment. The Langan auditors should coordinate future single

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audits with DCAA to achieve comprehensive and cost-effective audits in accordance with GAS and OMB Circular A-133.

**Summary.** The Langan Associates, PC, audit work did not meet the requirements of OMB Circular A-133, the related Compliance Supplement, and GAS. As a result, Federal agencies and pass-through entities cannot rely on the audit report for assurance that ASEE is managing Federal awards in compliance with laws, regulations, and award provisions.

Langan Associates lacked an understanding of the single audit requirements. Personnel engaged in these audits need additional training on GAS and OMB Circular A-133. Because of the deficiencies discussed in this report, we conclude that the audit was not adequately supervised and that proper supervision is needed to conduct the audit in accordance with GAS and OMB Circular A-133 requirements.

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## Recommendations

1. We recommend that the Chief Financial Officer, American Society for Engineering Education:
  - a. Direct Langan Associates, PC, to redo the single audit of the American Society for Engineering Education for the fiscal year ended September 30, 2004, to correct the deficiencies identified in this report at no additional cost to the Government.
  - b. Notify the DoD Office of Inspector General when Langan Associates, PC, provides the revised reporting package to the American Society for Engineering Education so that we can perform a follow-up quality control review before submitting the revised FY 2004 single audit reporting package to the Federal Audit Clearinghouse.
  - c. Identify as unallowable any costs associated with the audit services provided by Langan Associates, PC, for the FY 2004 single audit until the audit is performed in accordance with OMB Circular A-133 and government auditing standards.
  - d. Revise the Schedule of Expenditures of Federal Awards according to the requirements of Office of Management and Budget Circular A-133 and provide the corrected Schedule to Langan Associates, PC, to perform the additional audit procedures necessary for the FY 2004 Office of Management and Budget Circular A-133 audit.

**ASEE Comments.** ASEE management stated that Langan Associates, PC was acquired by another firm, LarsonAllen on May 1, 2006. LarsonAllen has agreed to redo the FY 2004 single audit at no cost to the government. ASEE expects the audit to be completed in the fall of 2006 and will forward a copy to the DoD Office of Inspector General upon completion. ASEE will also revise the Schedule of Expenditures of Federal Awards according to the requirements of OMB Circular A-133 and provide to LarsonAllen.

2. We recommend that the Partner in Charge, Langan Associates, PC:
  - a. Redo the single audit of the American Society for Engineering Education for the fiscal year ended September 30, 2004, at no additional cost to the Government and revise the reporting package to reflect, at a minimum, the date that the work is completed. The audit procedures should address the deficiencies identified in this report and be performed in accordance with the requirements of Office of Management and Budget Circular A-133 and Government auditing standards. The revised reporting package should be provided to the American Society for Engineering Education.

**LarsonAllen Comments.** Langan Associates (LarsonAllen) management believed that their workpapers complied with the minimum level of documentation required by professional standards. In addition, they believed that their audit complied with professional standards and the requirements of OMB Circular A-133. LarsonAllen management also stated that they received guidance from a grant program officer to support non-disclosure of a

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corrected item of non-compliance. However, LarsonAllen concurred with the recommendation and agreed to reperform the FY 2004 single audit of ASEE to address all findings and recommendations and revise the reporting package and the Data Collection Form at no additional cost. For future audits, LarsonAllen will modify their audit approach to clearly demonstrate the testing of internal control and compliance over financial reporting; enhance work paper documentation; introduce electronic audit programs and take continuing professional education on OMB Circular A-133 issues; report all errors and issues of noncompliance in the Schedule of Findings and Questioned Costs in excess of their calculated level of materiality; include a summary work paper that clearly documents the conclusions and audit procedures performed to assess the reasonableness of the Summary Schedule of Prior Audit Findings; and coordinate more thoroughly with DCAA.

**APO Response.** With the exception noted in the following paragraph, LarsonAllen proposed acceptable corrective actions to address the deficiencies we noted. Although they stated the audit met the auditing standards and OMB Single Audit requirements, they did not provide additional information or documentation to cause us to change our conclusions.

In addition, we disagree with the corrective action proposed for Finding C. “Reporting a Noncompliance Issue.” LarsonAllen stated that they will report all issues of errors and noncompliance in excess of the calculated level of materiality. However, the determination to report a finding should be based on qualitative as well as quantitative factors. Tests of compliance may disclose instances of noncompliance that may or may not be monetary in nature. The auditor should consider the nature and frequency of the noncompliance, the significance of the noncompliance in relation to the compliance objectives, and whether a reportable condition exists. Furthermore, regardless of the audit calculated level of materiality, OMB Circular A-133 requires reporting known or likely questioned costs greater than \$10,000.

We will perform a follow-up review to determine if the additional audit procedures meet the Government Auditing Standards, OMB Circular A-133 requirements and address all the specific deficiencies cited in Findings A through D.

- b. Obtain formal training for all personnel working on single audits so that future audits comply with Government auditing standards and the audit requirements of Office of Management and Budget Circular A-133.


**LarsonAllen Comments.** LarsonAllen management stated that OMB Circular A-133 training was provided to the staff in March 2006 and that additional training is scheduled for July 28, 2006. LarsonAllen has a Chief Learning Officer who aids in providing staff structured learning opportunities to meet all state licensing and yellow book continuing professional education requirements.

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- c. Adequately supervise personnel working on Office of Management and Budget Circular A-133 audits as required by Government auditing standards.

**LarsonAllen Comments.** LarsonAllen management stated that they have a quality control system that outlines the requirements for adequate staffing and supervision of all audit engagements. The quality control group reviews all financial reports before issuance. LarsonAllen will continue this practice on the reperformance of the FY 2004 audit and all future financial statement audits performed under OMB Circular A-133.

**APO Response.** The OMB Circular A-133 single audit encompasses an audit of the financial statements and an audit of the major Federal programs. It is imperative that the LarsonAllen quality control group review the entire OMB Circular A-133 single audit for FY 2004 and future single audits before issuance of the reports.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Ms. Janet Stern at (703) 604-8750 (DSN 664-8750) or Mr. Wayne Berry at (703) 604-8789 (DSN 664-8789). See Appendix B for the report distribution.



Patricia A. Brannin  
Assistant Inspector General  
for Audit Policy and Oversight

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# Appendix A. Quality Control Review Process

## Background, Scope, and Methodology

The Single Audit Act, Public Law 98-502, as amended, was enacted to improve the financial management of State and local governments and nonprofit organizations by establishing one uniform set of auditing and reporting requirements for all Federal award recipients required to obtain a single audit. OMB Circular A-133 establishes policies that guide implementation of the Single Audit Act and provides an administrative foundation for uniform audit requirements of non-Federal entities administering Federal awards. Entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) are subject to the Single Audit Act and the audit requirements of OMB Circular A-133 and, therefore, must have an annual single or program-specific audit performed under GAS and submit a complete reporting package to the Federal Audit Clearinghouse.

We reviewed the Langan Associates, PC, audit of the American Society for Engineering Education for FY 2004 and the resulting reporting package that was submitted to the Federal Audit Clearinghouse, dated February 22, 2005, 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 and is the approved President’s Council on Integrity and Efficiency checklist used for performing quality control reviews. We performed the review from January 2006 through August 2006. The review focused on the following qualitative aspects of the single audit:

- Qualification of auditors
- Independence
- Due professional care
- Planning and supervision
- Internal control and compliance testing
- Schedule of Expenditures of Federal Awards
- Schedule of Findings and Questioned Costs
- Summary Schedule of Prior Audit Findings
- Data Collection Form

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## **Appendix B. Report Distribution**

### **Office of the Secretary of Defense**

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Director, Defense Procurement and Acquisition Policy

### **Department of the Air Force**

Contracting Officer, Air Force Office of Scientific Research  
Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Air Force Audit Agency

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)  
Auditor General, Department of the Army

### **Department of the Navy**

Chief, Office of Naval Research  
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Financial Management and Comptroller  
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Office of the Inspector General, National Aeronautics and Space Administration  
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### **Non-Government Organizations**

Board of Directors, American Society for Engineering Education  
Finance Committee, American Society for Engineering Education  
Chief Financial Officer, American Society for Engineering Education  
Principal in Charge, LarsonAllen, LLP  
Audit Supervisor, LarsonAllen, LLP

### **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Homeland Security and Governmental Affairs

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House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency and Financial Management  
House Subcommittee on National Security, Emerging Threats, and International  
Relations, Committee on Government Reform  
House Subcommittee on Technology, Information Policy, Intergovernmental Relations,  
and the Census



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# American Society for Engineering Education Comments



American Society for Engineering Education

Office of the Inspector General DoD  
400 Army Navy Drive  
Arlington, VA 22202-4704  
7/5/2006

Attention: Sharon Vasquez

Here are my comments on the draft of the proposed report you faxed over to me.

**Response to the Report on Quality Control Review of the FY 2004 Single Audit of  
American Society for Engineering Education**

**Finding E: Schedule of Expenditures of Federal Awards and Data Collection Form.**

ASEE did not prepare the Expenditure of Federal Awards in accordance with OMB Circular A-133. ASEE did not clearly present Federal awards received as a subrecipient as pass-through funds on their FY 2004 Schedule of Expenditures of Federal Awards. Consequently, the Langan auditors did not properly complete Part III, Item 9, of the Data Collection Form because all of the Federal awards were indicated as direct awards.

The ASEE Schedule of Expenditures of Federal Awards for FY 2004 listed programs under the headings of Department of Defense, National Science Foundation, and National Aeronautics & Space Administration. Under the Department of Defense heading ASEE listed the Program Title and the Federal Grantor, the Grant/Agreement number, and the expenditure. Under the Grant/Agreement number for the ONR Summer Faculty Research Program we included the pass-through funds from UTEP used to pay faculty from Historically Black Colleges and Universities (HBCU) that participate in the program. These funds come from ONR to UTEP to ASEE. Since this line item included various sources (the sub-grant funds, grant funds, and contract expenses) ASEE labeled it so. The list of expenditures included not only pass-through funds but all expenditures including direct and indirect expenses. On the Incurred Cost Proposal, ASEE listed the award as a sub-grant. In the future ASEE will separate out any sub-grants where the funds are provided by a government agency.

As for the recommendations, Langan Associates, PC was acquired by the firm Larson, Allen, Weishair (LarsonAllen) on May 1, 2006. ASEE understands that LarsonAllen has agreed to redo our FY 04 Single Audit based on your recommendation at no cost to the government. We expect this audit to be conducted and completed later this fall and will forward a copy to you upon its completion.

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We will identify the costs to the government associated with the original audit.

We will create a schedule where the funding from UTEP is labeled as a sub-grant for Langan Associates to use to satisfy the A-133 requirements.

*Charlotte Watson*

Charlotte Watson  
ASEE CFO

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# LarsonAllen Comments

## LarsonAllen™

CPAs, Consultants & Advisors  
www.larsonallen.com

July 7, 2006

Ms. Patricia A. Brannin  
Assistant Inspector General  
Audit Policy and Oversight  
400 Army Navy Drive  
Arlington VA 22202-4704

SUBJECT: Project No. D2006-DIPOAI-0126  
Report on Quality Control Review of the FY 2004 Single Audit of American Society for  
Engineering Education

Dear Ms. Brannin:

We appreciate the opportunity to respond to your draft report and the findings you have identified. Following you will find our comments to the specific Findings and Recommendations contained in your Discussion Draft of a Proposed Report.

Langan Associates, P.C. was acquired by Larson, Allen, Weishair & Co., LLP (LarsonAllen) effective May 1, 2006. LarsonAllen provides its staff with structured training and development programs including coordination by a Chief Learning Officer who champions the creation of a continuous learning structure.

**Finding A. Review of Internal Control and Compliance over Financial Reporting.**

"The Langan auditors did not adequately obtain an understanding of internal control over financial reporting for the FY 2004 single audit."

We believe that our workpapers demonstrate that we adequately obtained an understanding of internal controls over financial reporting. In our permanent file, we have documentation that supports that we gained and updated our understanding of internal controls related to the financial reporting over account balances that were material. We believe that the engagement complied with the minimum level of documentation required by professional standards in the requirement of internal control and compliance over financial reporting. However for future audits, including the re-performance of the FY 2004, we will modify our approach to clearly demonstrate the testing of internal control and compliance over financial reporting for all significant operating cycles by enhancing the documentation of inquiries, better documentation of items observed, source of client responses and clearly separating the work performed on the financial reporting system from the work performed on internal controls and compliance on federal awards including separate summation of dual testing procedures. Along with training we are providing professional standard changes in regards to documentation requirements of workpapers.

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**Finding B. Review of Major Federal Programs**

"The Langan auditors did not perform adequate audit procedures to address internal control and compliance and did not report a noncompliance for the major Federal programs."

We believe that the FY 2004 single audit of ASEE complied with professional standards and the requirements of the Office of Management and Budget Circular A-133 related to the audit of Federal programs. We believe that our workpapers contain the minimum documentation required to adequately support our opinion on the report of internal control and compliance over ASEE's major Federal programs. However for future audits, we will ensure our documentation standards are consistent with your recommendations. We have taken and continue to take steps to introduce electronic audit programs and continuing professional education on OMB Circular A-133 issues. The revised audit programs will be tailored for ASEE to comply with all requirements of OMB Circular A-133 related to internal control over major Federal programs. See Finding C below for our response to not reporting a noncompliance for the major Federal programs.

**Finding C. Reporting a Noncompliance Issue**

We did seek and receive guidance from a grant program officer to support non-disclosure of a corrected item of non-compliance. However, for future audits we agree to report all errors and issues of noncompliance in the Schedule of Findings and Questioned Costs, which impact is believe to be in excess of the calculated level of materiality.

**Finding D. Review of the Summary Schedule of Prior Audit Findings**

"The Langan auditors did not perform adequate audit procedures to assess the reasonableness of the Summary Schedule of Prior Audit Findings."

Although we did not have a central workpaper summarizing our response to prior year findings, we believe that our workpapers taken together demonstrate that we performed adequate procedures to assess the reasonableness of the Summary Schedule of Prior Audit Findings. However for future audits, we will include a summary workpaper that clearly documents support for our conclusions and the audit procedures we performed to assess the reasonableness of the Summary Schedule of Prior Audit Findings.

**Finding E. Schedule of Expenditures of Federal Awards and Data Collection Form**

"ASEE did not prepare the Schedule of Expenditures of Federal Awards in accordance with OMB Circular A-133. ASEE did not clearly present Federal awards received as a sub recipient as pass-through funds on their FY 2004 Schedule of Expenditures of Federal Awards. Consequently, the Langan auditors did not properly complete Part III, Item 9, of the Data Collection Form because all of the Federal awards were indicated as direct awards.

Although the finding relates to less than 1% of total Federal awards, which we believe to be immaterial, we understand your finding in respect to the recognition of pass-through funds and will be more diligent in the future.

**Other Matters of Interest**

"The Langan auditors did not coordinate the FY 2004 ASEE single audit with the Defense Contract Audit Agency (DCAA)."

DCAA reviews our workpapers on an annual basis. Based on our past experience with DCAA, if DCAA were aware of anything that would materially impact the scope of our audit we believe DCAA would have communicated this to us. Nevertheless, for future audits we will coordinate more thoroughly with DCAA by initiating contact with DCAA. We will also document this coordination in our audit workpapers. We will communicate with DCAA during the planning phase of the audit to learn of any DCAA reports issued or in process. We will review the reports and make sure DCAA's results are incorporated into our OMB Circular A-133 audit to achieve a comprehensive and cost-effective audit.

**Recommendation a**

"Redo the single audit of the American Society for Engineering Education for the fiscal year ended September 30, 2004 at no additional costs and revise the reporting package to reflect, at a minimum, the date the work is completed."

To demonstrate our desire to fully cooperate with the DoD OIG, LarsonAllen (on behalf of Langan Associates which was acquired May 1, 2006 ) agrees to reperform the FY 04 single audit of ASEE during the FY 06 audit which will take place in December 2006 and revise the reporting package and the data collection form at no additional costs. We will address all findings and recommendations brought up by the DoD OIG.

**Recommendation b**

"Obtain formal training for all personnel working on single audits to ensure future audits comply with government auditing standards and the audit requirements of Office of Management and Budget Circular A-133."

In response to the DoD OIG Quality Control Review, OMB Circular A-133 training was provided to staff in March 2006 and additional training is scheduled for July 28, 2006. As previously noted, LarsonAllen has a Chief Learning Officer who aids in providing staff structured learning opportunities designed to focus on staff needs and meet all state licensing and yellow book continuing professional education requirements.

**Recommendation c**

"Ensure that adequate supervision is provided to personnel working on Office of Management and Budget Circular A-133 audits as required by government auditing standards."

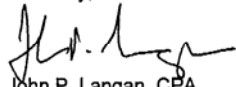
LarsonAllen quality control system clearly outlines the requirements for adequate staffing and supervision of all auditing engagements including single audits. In addition, LarsonAllen maintains a separate Quality control group, which is independent of the audit team, which reviews all financial reports before issuance. We will continue these high standards on all the reperformance of the 2004 audit and all future financial statement audits performed under OMB Circular A-133 audits.

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Thank you again for the opportunity to comment on this discussion draft.

Sincerely,

A handwritten signature in black ink, appearing to read 'John P. Langan', with a stylized flourish at the end.

John P. Langan, CPA  
Principal in Charge, Metro DC