



THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

Report on Federal Awards in Accordance
with OMB Circular A-133

Year ended September 30, 2003

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

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PART I
FEDERAL AWARD PROGRAMS



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**Independent Auditors' Report on Compliance and on Internal Control
over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Board of Trustees of The University of Alabama and
the President of the University of Alabama in Huntsville:

We have audited the basic financial statements of The University of Alabama in Huntsville (the University), one of the campuses of The University of Alabama System which is a component unit of the State of Alabama, as of and for the year ended September 30, 2003, and have issued our report thereon dated November 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the University's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting, which we have reported to management of the University in a separate letter dated November 21, 2003.



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.



This report is intended solely for the information and use of the Board of Trustees, the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 21, 2003



KPMG LLP
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**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

The Board of Trustees of The University of Alabama and
the President of the University of Alabama in Huntsville:

Compliance

We have audited the compliance of The University of Alabama in Huntsville (the University), one of the campuses of The University of Alabama System which is a component unit of the State of Alabama, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2003. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 03-1 through 03-2.

Internal Control over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in





order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

Schedules of Expenditures of Federal Awards and Expenditures of Federal Awards by Federal Agency

We have audited the basic financial statements of the University as of and for the year ended September 30, 2003, and have issued our report thereon dated November 21, 2003. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards by federal agency is also presented for purposes of additional analysis and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Trustees, the audit committee, management and federal awarding agencies, and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 21, 2003, except for Compliance and Internal Control over Compliance as to which the date is April 29, 2004

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

Schedule of Expenditures of Federal Awards

Year ended September 30, 2003

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Pass-through entity identifying number	Federal expenditures
Major programs:			
Research and Development:			
U.S. Department of Defense:			
Space & Missile Defense Command	12.RD		\$ 48,102
Department of Army	12.RD		8,181,575
Department of Air Force	12.RD		96,777
Department of Navy	12.RD		77,577
Subtotal			8,404,031
Pass-through programs from:			
U.S. Department of Army pass-through:			
UAB/EOX for Combat Casualty	12.RD	AGR DTD 03/06/98	(2,202)
Oakwood College/Biomakers of Genotoxicity	12.RD	DAMD179818138	28
Clark ATU/Characterization & Modeling of L/T	12.RD	OSP010530537001	31,139
Subtotal			28,965
U.S. Department of Air Force pass-through:			
AAMU/Physics-Based Analysis Using HASDM	12.RD	AGREEMENTDATED91802	12,296
U.S. Department of Navy pass-through:			
GA Tech/Meteorological Under SCISSAP	12.RD	G35W62S1	2,148
FSU/Assessment of the Application of Remote Sensing	12.RD	POF40158	69
SDSUF/Study of Radioactive Effects of Biomass Aerosols	12.RD	50879BP2854DO0056	(6,455)
Clemson/Laboratory for Advanced Photonics	12.RD	AGR53970342252002453	324
UAB/Eye Oximetry for Trauma Care	12.910	SUBGRANTN00014011029	121,002
Cloud Aerosol Products from Gifts	12.RD	G066835	50,516
The Study of Radioactive Effects of Biomass Burning Aerosols	12.RD	50879BP3183	43,290
Clemson/Laboratory for Advanced Photonics	12.910	AGR#6577558203200325	785,550
UAB/Intelligent Control for Future Deployment	12.RD	N000140319751	8,132
Subtotal			1,004,576
Total U.S. Department of Defense			9,449,868
U.S. Department of Health & Human Services	93.RD		405,181
Pass-through programs from:			
U.S. Department of Health & Human Services pass-through:			
UAB/Structural Genomics LSB	93.RD	AGR#RR166436	126,727
ADECA/AL Reach Program Evaluation	93.RD	00REACH01	35,092
Subtotal			161,819
Total U.S. Department of Health & Human Services			567,000
National Science Foundation	47.RD		1,320,091
Pass-through programs from:			
National Science Foundation pass-through:			
E. Carolina Univ/Developing Education Leadership	47.076	AGRDTDS1500	3,115
Design and Scale of a Process for Recovery	47.076	AGr00034	(3,124)
UA/MEMS/Epscor	47.RD	MASTERAGRDTD42701	1,251,186
Master Agreement DTD 4/25/01 Task No 003	47.RD	MSTAGRDT042501TSKNO	87,932
UAB/Alabama Alliance Minority Participation	47.075	HRD9600115	2,114
UI/GK-12 EDGRID Graduate Teaching Fellows Program	47.076	LTRSUBGRANTN001317	72,714
UAB/AMP Phase III, Participant Support	47.076	HRD0110595	39,884
UCAR/Providing Support for the GLOBE Program	47.RD	UCARSUBCONTS0234890	33,006
UCAR/THREDDS	47.RD	S0238696	42,793

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

Schedule of Expenditures of Federal Awards

Year ended September 30, 2003

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Pass-through entity identifying number	Federal expenditures
USRA/Compass:Convectin Morphology Parameters	47.RD	349001	40,664
CSU/Radar & Satellite Analysis of Convection	47.050	G32101	10,972
UI/Interchange Technology Feature/Extraction	47.RD	AGRDTD12798	77,119
MIPS Operations in Support of the Hudson Valley Boundary	47.RD	0316UNDERNSFGRANTAT	4,128
			<u>1,662,503</u>
			<u>2,982,594</u>
Total National Science Foundation			<u>20,604,819</u>
National Aeronautics & Space Administration	43.RD		
Pass-through programs from:			
National Aeronautics & Space Administration pass-through:			
USRA/WBS 4.6.3/On-Campus/Alshibli/MGM	43.RD	35371TASKNO03547111	(46,961)
Development of Silicon Carbide Chemical Sensors	43.RD	SUBGRANTUAHNAG32302	(4,379)
U OF CA-Irvine/Observable Protein Crystal Growth Apparatus	43.RD	UAHNAS800017	(2,511)
U OF CA Berkeley/Hard X-Ray Studies Using HESSI Data	43.RD	SA265226308	50,778
SAO/An X-Ray Imaging Survey (Off Campus)	43.RD	GO01102X	(755)
AAMU Space Science Education and Sun-Earth Connection	43.RD	LTRDTDAPRIL202001	23,233
CWRU/Stability Limits and Dynamics Off Campus	43.RD	LTRDTD040301	(15,194)
College of Charleston/Artificial Intelligence Classification	43.RD	LTRDTD4/2/01UNDERNAG	(83)
NMHI/Alliance for Nonlinear Optics	43.RD	AGRDTD3/1/01UNDERNAG	60,531
USRA/Implement Visiting Researcher Exchange and Outreach	43.RD	SUBGRANTNO0348501	7,250
OU/Integrated Guidance & Control Tech for RLV Risk & Cost	43.RD	LTRDTD72501NAS801105	85,178
USRA/Soil Climatology and Remote Sensing Task 1	43.RD	AGRDTD112901	29,066
USRA/University Research Fellowship Program	43.RD	34881COOPAGRNC5612	8,927
UCB/Extended Mission Investigations with Ultraviolet	43.RD	SUBAWARDSA3527	87,078
UNH/Hard X-Ray Polarization from Solarflares with HESSI	43.RD	AGREEMENT03656	17,789
USRA/ESS/Director's Account	43.RD	SUBGRANT03491-01	30,948
USRA/Collaborative Research Education and Outreach	43.RD	SUBGRANT HSV 2002-02	31,053
SAO/Observation of CYG X-1 in the High State with HETG/CH	43.RD	DD23018X	19,036
USRA/Data Analysis Interpretation of BEPPoSAX Observation	43.RD	SUBGRANT33541	9,407
UAT/Optical Shape Evaluation of Thin Film Optical Elements	43.RD	587SC01	102
U OF Houston/Physico-Chemical Tools for Rational Optimization	43.001	15531971/G085455R030	60,543
SAO/Phase Resolved High Energy Resolution Spectroscopy	43.RD	GO23061X	24,055
U of New Hampshire/Readout Development	43.RD	04805UNDERNAG513178	20,951
USRA Effects of Travelling Magnetic Fields on Dynamics	43.RD	SUBCONTRACT0354802	37,351
Subtotal			<u>533,393</u>
Total National Aeronautics & Space Administration			<u>21,138,212</u>
U.S. Department of Education	84.RD		<u>301,464</u>
U.S. Department of Transportation	20.RD		<u>247,335</u>

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

Schedule of Expenditures of Federal Awards

Year ended September 30, 2003

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Pass-through entity identifying number	Federal expenditures
Pass-through programs from:			
U.S. Department of Transportation pass-through:			
S/AL/DOT/Law Enforcement Intelligent Network System	20.RD	ITS9903(1)	\$ 62,317
A/UA/Multi-Channel Fiber Optic Gyroscope	20.RD	UAAGREEMENT00007	141,033
UAB/Transfer of Transportation Safety Technology	20.RD	UABAGRDTD41300	36
S/AL DOT/Program for Monitoring & Assessing Climate	20.RD	HPP1602528	63,653
A/MSU/Applications in Remote Sensing	20.RD	302645060800	31,620
A/UA/Gearing Up for Transportation: Engineering Institute	20.RD	67	62
A/UA/Development of New Experimental Approval for Bridge	20.RD	70	(90)
A/UA/Multimedia Resource for AL DOT Engineers	20.RD	MASAGRETD72701TASK1	6,403
O/RPCGB/Traffic Simulation Software for Analysis	20.RD	RPCGBAGRDATED92502	12,648
A/UA/Multimedia Technology for Timber Bridge Repair	20.RD	UTCAPROJECTNO03301TA	8,568
A/UA/Expert System for Drilled Shaft Construction Inspection	20.RD	UTCAPROJECTNO03309TA	37,854
A/UA/UTCA/Study of a GIS Accident System	20.RD	UTCAPROJECTNO03304TA	21,383
A/UA/UTCA/Sensor Networks for Automobile Tracking	20.RD	UTCAPROJECTNO03303TA	9,584
A/UA/Hand-Held Explosives Sensor System	20.RD	UTCAPROJECTNO03306TA	10,078
A/UA/UTCA/Program for Encouraging Diversity	20.RD	UTCAPROJECTNO03305TA	42,524
A/UA/UTCA/03 Administrative Funding for Associate Director	20.RD	UTCAPROJECTNONONETAS	42,263
A/UA/UTCA/Data Analysis for the Through Trip Rates Project	20.RD	TASKORDERNO1603-002	19,278
Subtotal			509,214
Total U.S. Department of Transportation			756,549
U.S. Department of Commerce	11.RD		438,663
Pass-through programs from:			
U.S. Department of Commerce pass-through:			
UCAR/Special Observing Forecast and Warning	11.459	S0019125	32,380
HARC/Top-Down Emissions Verification	11.000	H62002B	81,980
Subtotal			114,360
Total U.S. Department of Commerce			553,023
U.S. Department of Energy	81.RD		128,791
Pass-through programs from:			
U.S. Department of Energy pass-through:			
Adu Tech Base Rapidly Resp Rio Threats Infections	81.RD	459520010239	(210)
ADECA/Biomass	81.079	1STR02RENEW07	4,258
LANL/Energetic Neutral Beam Materials Chemistry	81.RD	512100010237	449
ADECA/IDEAS FY 2002	81.RD	1EXSEP0214	(840)
Subtotal			3,657
Total U.S. Department of Energy			132,448
Tennessee Valley Authority	62.RD		56,404
U.S. Environmental Protection Agency	66.RD		259,176
Pass-through programs from:			
U.S. Environmental Protection Agency pass-through:			
JCDH/Providing Public Access to Daily Air Quality Info	66.009	MOUDDTD3501	46,017
Total U.S. Environmental Protection Agency			305,193

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

Schedule of Expenditures of Federal Awards

Year ended September 30, 2003

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Pass-through entity identifying number	Federal expenditures
Pass-through programs from:			
National Endowment for the Humanities pass-through:			
AHF/Beyond Ourselves: Encounters with Gods and Others	45.129	06021653MN	\$ 1,983
AHF/Asian Reflections: Philosophy & Artin Chinese Culture	45.129	05021651MN	<u>1,711</u>
Total National Endowment for the Humanities			<u>3,694</u>
Pass-through programs from:			
U.S. Small Business Administration pass-through:			
UAB/SBDC/SBS 02-2003	59.005	SBA20022003	66,061
UAB/SBDC-ASBPS03	59.005	ASBPS03	12,100
UAB/SBDC-SETF03	59.005	SETF03	12,949
Total U.S. Small Business Administration			<u>91,110</u>
U.S. Department of Agriculture	10.206		<u>36,658</u>
Veterans Affairs	64.RD		<u>41,471</u>
Total Research and Development			<u>36,415,688</u>
Student Financial Aid:			
U.S. Department of Education:			
SEOG	84.007		128,707
PELL Grants	84.063		3,875,851
Federal Work Study	84.033		175,869
Nurse Training Program 94-95	84.XX1		<u>(46,867)</u>
Total Student Financial Aid			<u>4,133,560</u>
Total Major Programs			<u>40,549,248</u>
Nonmajor programs:			
Instruction and Training:			
Department of Health & Human Services	93.358		<u>68,765</u>
National Science Foundation	47.XX1		<u>192,618</u>
Pass-through programs from:			
National Science Foundation pass-through:			
UI/SuperWeb K-12	47.076	AGRDTD1/27/98	31,061
UAB/Alabama Minority Graduate Education (MGE)	47.076	UABAGRDTD61599	17,972
Alabama Alliance-Minority Participation	47.075	HRD9600115	694
Subtotal			<u>49,727</u>
Total National Science Foundation			<u>242,345</u>
National Aeronautics & Space Administration	43.XX1		<u>67,776</u>
U.S. Department of Education	84.XX2		88,955
Pass-through programs from:			
U.S. Department of Education pass-through:			
ALSDE/Collaborative Teacher Certificate Program	84.XX3	AGRDTD02012002	285
Total U.S. Department of Education			<u>89,240</u>
U.S. Department of Commerce	11.XX1		<u>11,114</u>
U.S. Department of Agriculture	10.XX1		<u>88,880</u>
U.S. Department of Defense	12.XX1		<u>123,396</u>
Total Instruction and Training			<u>691,516</u>

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

Schedule of Expenditures of Federal Awards

Year ended September 30, 2003

<u>Federal grantor/pass-through grantor/program or cluster title</u>	<u>Federal CFDA number</u>	<u>Pass-through entity identifying number</u>	<u>Federal expenditures</u>
Other federal awards:			
National Science Foundation	47.XX2		\$ 108,254
U.S. Department of Commerce	12.XX2		<u>5,399</u>
Pass-through programs from:			
U.S. Department of Commerce pass-through: NIST Program Fund for MEP Center	11.610	AGRDTDI/16/97	<u>138,813</u>
Total U.S. Department of Commerce			<u>144,212</u>
National Aeronautics & Space Administration pass-through: S/ASDE/UAH Amsti Master Site	43.001	U200548	<u>1,033,535</u>
U.S. Department of Defense	12.XX3		<u>115,359</u>
National Endowment for the Humanities	45.XX1		<u>3,032</u>
Pass-through Programs from:			
National Endowment for the Humanities pass-through: AHF/Philosophy and Mysticism: Influences & Interactions	45.129	03031679MN	<u>1,232</u>
Total National Endowment for the Humanities			<u>4,264</u>
U.S. Department of Transportation	20.XX1		<u>69,325</u>
U.S. Department of Justice	16.710		<u>3,108</u>
U.S. Department of State	19.XX1		<u>218,372</u>
Total other federal awards			<u>1,696,429</u>
Total nonmajor programs			<u>2,387,945</u>
Total expenditures of federal awards			<u>\$ 42,937,193</u>

See accompanying notes to schedules of expenditures of federal awards and expenditures of federal awards by federal agency.

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
 Schedule of Expenditures of Federal Awards by Federal Agency
 Year ended September 30, 2003

Federal grantor/program title	Department of Defense	Department of Health and Human Services	National Science Foundation	National Aeronautics and Space Administration	Department of Education	Department of Transportation	Department of Commerce	Other	Total
Major programs:									
Research and development	\$ 8,404,031	405,181	1,320,091	20,604,819	301,464	247,335	438,663	572,500	32,244,084
Student financial aid	1,045,837	161,819	1,662,503	533,393	4,133,560	509,214	114,360	144,478	4,133,560
Federal pass-throughs	9,449,868	567,000	2,982,594	21,138,212	4,435,024	756,549	553,023	666,978	41,171,604
Total major programs									40,549,248
Nonmajor programs:									
Nonmajor programs	238,755	68,765	300,872	67,776	88,955	69,325	16,513	313,392	1,164,353
Nonmajor pass-throughs	238,755	68,765	49,727	1,033,535	285	—	138,813	1,232	1,223,592
Total nonmajor programs									2,387,945
Total expenditures of federal awards	\$ 9,688,623	635,765	3,333,193	22,239,523	4,524,264	825,874	708,349	981,602	42,937,193

See accompanying notes to schedules of expenditures of federal awards and expenditures of federal awards by federal agency.

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

Notes to Schedules of Expenditures of Federal Awards and Expenditures of Federal Awards by Federal Agency

Year ended September 30, 2003

(1) **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards and Schedule of Expenditures of Federal Awards by Federal Agency (the Schedules) summarize the federal expenditures of The University of Alabama in Huntsville (the University) under programs of the federal government for the year ended September 30, 2003. The amounts reported as federal expenditures were obtained from the University's general ledger. Because the Schedules present only a selected portion of the operations of the University, they are not intended to and do not present the net assets, changes in net assets, and cash flows of the University.

For purposes of the Schedules, federal awards include all grants, contracts, and similar agreements entered into directly between the University and agencies and departments of the federal government and all subawards to the University by nonfederal organizations pursuant to federal grants, contracts, and similar agreements. The awards are classified into Type A and Type B in accordance with the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Programs classified as Type A are as follows:

(a) **Research and Development**

Includes awards for research and development work primarily under grants with agencies and divisions of the National Aeronautics and Space Administration, the U.S. Department of Defense, the U.S. Department of Commerce, the U.S. Department of Transportation, the U.S. Department of Energy, and the National Science Foundation.

(b) **Student Financial Aid**

Includes certain awards to provide financial assistance to students, primarily under the Federal Work-Study (FWS), Federal Pell Grant (Pell), Federal Supplemental Educational Opportunity Grant (FSEOG) and Federal Direct Student Loan (FDSL) programs of the U.S. Department of Education. The University receives awards to make loans to eligible students under certain federal student loan programs. These loans are considered student financial aid; however, only expenses related to the administration and collection of these loans are included in federal award expenditures.

The University has obtained Catalog of Federal Domestic Assistance (CFDA) numbers to ensure that all Type A programs have been identified in the Schedule of Expenditures of Federal Awards. Due to the fact that not all CFDA numbers have been identified, individual awards not identified by CFDA number have been reviewed to ensure that similar awards, if aggregated, would not constitute a Type A program.

Federal Pass-through Funds

Certain funds are passed through to subgrantee organizations by the University. Expenditures incurred by the subgrantees and reimbursed by the University are presented in the Schedules. The University provided \$2,144,597 of federal awards to subrecipients during the year ended September 30, 2003. Of this amount, \$1,833,561 was passed through from the research and development cluster and \$311,036 from other nonmajor programs.

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

Notes to Schedules of Expenditures of Federal Awards and
Expenditures of Federal Awards by Federal Agency

Year ended September 30, 2003

The University is also the subrecipient of federal funds which have been subjected to testing and are reported as expenditures and listed as federal pass-through funds. Federal awards other than those indicated as pass-throughs are considered direct.

Schedule of Expenditures of Federal Awards by Agency

The Schedule of Expenditures of Federal Awards by Agency shows direct federal awards and pass-through awards by federal agency. A separate column shows a total from a variety of federal sponsors. These other federal sponsors include the following:

Department of Energy	\$	132,448
Tennessee Valley Authority		56,404
Environmental Protection Agency		305,193
Department of Agriculture		125,538
National Endowment for the Humanities		7,958
State Department		218,372
Department of Justice		3,108
Small Business Administration		91,110
Department of Veterans Affairs		41,471
	\$	<u>981,602</u>

(2) Summary of Significant Accounting Policies

For purposes of the Schedules, expenditures for federal award programs are recognized on the accrual basis of accounting. Expenditures for federal student financial aid programs include Federal Pell program grants to students, the federal share of students' FSEOG program grants, and FWS program earnings and administrative cost allowances where applicable.

(3) Facilities and Administrative Costs (F&A Costs)

The University operates under predetermined fixed F&A cost rates which are effective from October 1, 2000 through September 30, 2004. The predetermined fixed rates were based on 1999 financial information. The base rate for on-campus research is 45.5%. Base rates for other F&A cost recoveries range from 26% to 48%.

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

Notes to Schedules of Expenditures of Federal Awards and
Expenditures of Federal Awards by Federal Agency

Year ended September 30, 2003

(4) Federal Student Direct Loan Program

The Federal Direct Student Loan Program (FDSLP) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLP enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly through the University rather than through private lenders. The University began participation in the FDSLP on July 1, 1995. As a university qualified to originate loans, the University is responsible for handling the complete loan process, including funds management as well as promissory note functions. The University is not responsible for collection of these loans. During 2003, the University disbursed approximately \$12,690,000 under the FDSLP.

The University is responsible for the performance of certain administrative duties with respect to the FDSLP. It is not practical to determine the balance of loans outstanding to students and former students of the University under these programs for the year ended September 30, 2003. These loans are not included in the University's financial statements.

PART II
FINDINGS AND QUESTIONED COSTS

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

Schedule of Findings and Questioned Costs

Year ended September 30, 2003

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **unqualified opinion**
- (b) Reportable conditions in internal control were disclosed by the audit of the financial statements: **none reported** Material weaknesses: **no**
- (c) Noncompliance which is material to the financial statements: **no**
- (d) Reportable conditions in internal control over major programs: **none reported**
Material weaknesses: **no**
- (e) The type of report issued on compliance for major programs: **unqualified opinion**
- (f) Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **yes**
- (g) Major programs: **Student Financial Assistance Cluster; Research and Development Cluster**
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$1,288,116**
- (i) Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: **yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

There were no findings related to the financial statements reported in accordance with *Government Auditing Standards* for the year ended September 30, 2003.

(3) Findings and Questioned Costs Relating to Federal Awards

Finding No. 03-1

Student Financial Assistance Cluster

Special Tests and Provisions – Student Loan Repayments

Criteria

34 CFR 668 – A school must conduct exit counseling with each Direct Subsidized or Direct Unsubsidized Loan borrower shortly before the student borrower ceases at least half-time study at the school.

Condition

In our sample of 35 student financial aid recipients, we noted four Federal Direct Student Loan Program (FDSLP) borrowers who ceased at least half-time study at the University for whom exit interview procedures were not conducted.

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

Schedule of Findings and Questioned Costs

Year ended September 30, 2003

Cause

Noncompliance due to oversight.

Questioned Cost

None.

Recommendation

We recommend that the University implement procedures to follow up with FDSL P borrowers who do not attend scheduled exit counseling sessions either to reschedule such session or arrange to have the exit counseling materials forwarded to the individual. Documentation of the forwarding of exit counseling materials must be maintained in the student's file.

University Response

The Student Financial Aid department has a process in place to identify students who are subject to exit counseling. Written notification is sent to students who are scheduled to graduate informing them of the online process for conducting exit counseling. Students who leave school unexpectedly are sent exit interview packets containing all the required information. In the cases cited, the students were notified that exit counseling was required by normal processes, but failed to go online and submit to exit counseling. Financial Aid will immediately initiate a process to ensure that students who are directed to perform exit counseling actually do so in a timely manner.

Finding No. 03-2

Research and Development Cluster

Matching, Level of Effort, and Earmarking

Criteria

A-102 Common Rule (§____.24) and OMB Circular A-110 (§____.23) provide the following basic criteria for acceptable matching:

- Are verifiable from the non-Federal entity's records.
- Are not included as contributions for any other federally assisted project or program, unless specifically allowed by Federal program laws and regulations.
- Are necessary and reasonable for proper and efficient accomplishment of project or program objectives.
- Are allowed under the applicable cost principles.
- Are not paid by the Federal Government under another award, except where authorized by Federal statute to be allowable for cost sharing or matching.

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

Schedule of Findings and Questioned Costs

Year ended September 30, 2003

- Are provided for in the approved budget when required by the Federal awarding agency.
- Conform to other applicable provisions of the A-102 Common Rule and OMB Circular A-110 and the laws, regulations, and provisions of contract or grant agreements applicable to the program.

Condition

In our sample of 25 research and development grants and contracts which have cost sharing/matching provisions totaling \$572,134, we noted one grant which was undermatched by the University in the amount of \$5,375. The grant period end date was December 31, 2003. A total of \$825,375 was matched by the University during 2003 under the research and development cluster.

Cause

At the time of our test work in April 2004, University officials provided evidence that the principal investigator had been notified of the matching shortfall prior to the grant end date. However, the shortfall remained, pending clarification from the federal awarding agency with respect to the cost sharing arrangements as set forth in the grant agreement. Specifically, the University has inquired as to whether the match must be calculated on a project by project basis, or on the overall grant expenditures.

Questioned Cost

\$5,375

Recommendation

We recommend that the University continue to work with the federal agency and pass-through organization to clarify the cost sharing requirements for this particular research and development grant.

University Response

The University will continue to work with the federal agency and pass-through organization to clarify and ensure the cost sharing requirement for this particular research and development grant is met.